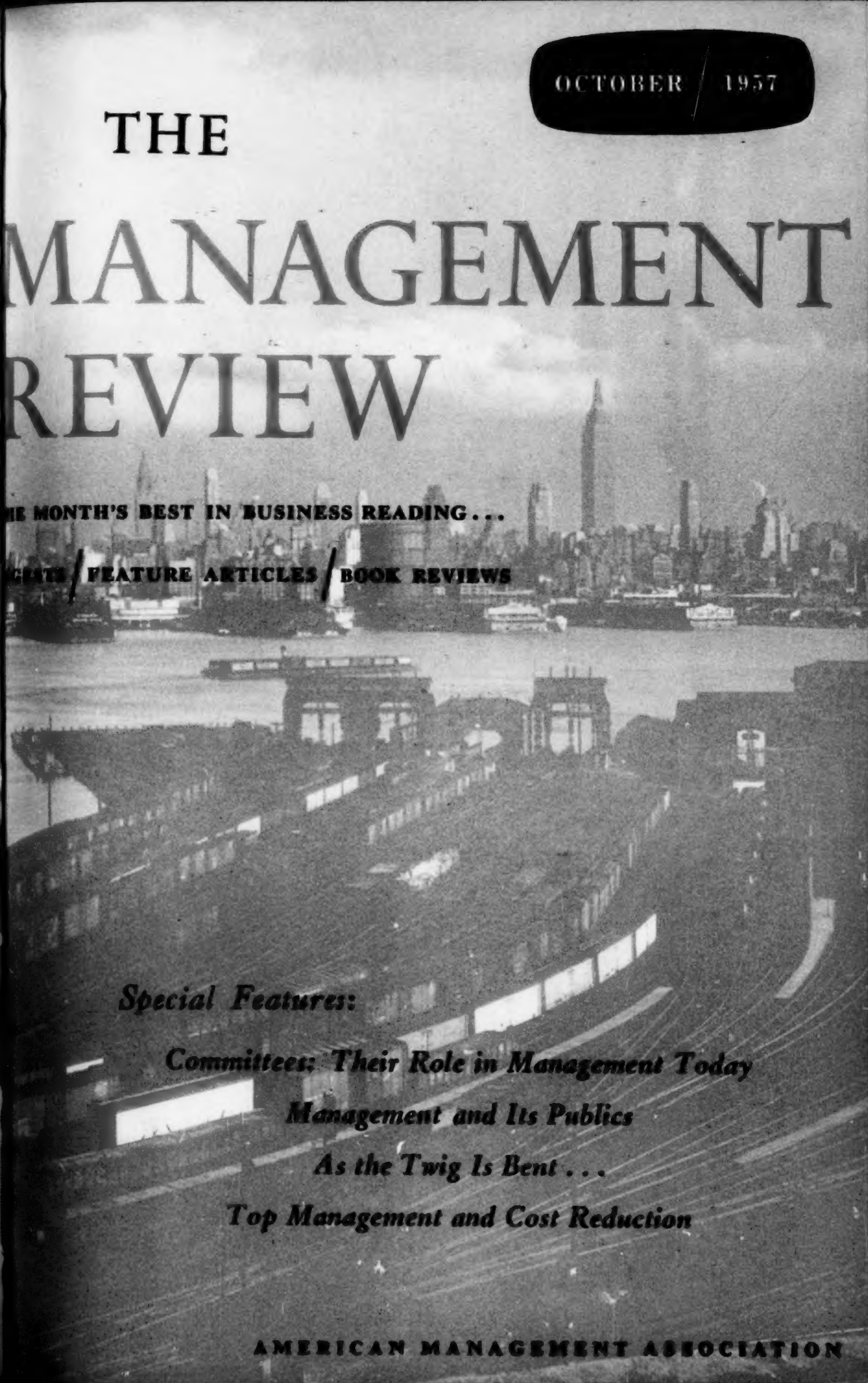
OCTOBER / 1957

THE MANAGEMENT REVIEW



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As the Twig Is Bent . . .

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in this issue . . .

- **Who Decides?** Whether a top executive is favorably disposed toward them or not—and feelings run high on both sides—committees are growing in number and, significantly, they're now making some major decisions. THE MANAGEMENT REVIEW's latest top-management survey (*Committees: Their Role in Industry Today,* p. 4) takes a look at the growing powers of committees, the checks and balances that are being brought to bear on them, and some practical questions about how committees get their work done.

- **Louder Than Words.** PR, in its broadest sense, suggests THEODORE V. HOUSER (*Management and Its Publics,* p. 12), is not a matter of "telling the company story" but of direct, positive action—action that must be taken if business is to get, once and for all, off the defensive. Here he describes the unusual program that has enabled Sears, Roebuck to attain its present leadership position within the business community—and well beyond.

- **Knowing Where to Cut.** Something has to be done about the high cost of corporate living, declares E. LEE TALMAN (*Top Management and Cost Reduction,* p. 22), and it's a job that will require plenty of ingenuity at the policy-making level. For it doesn't take any special genius to slash a budget. But it's something else again to recognize where real cost-saving opportunities lie and to avoid false economies that can boomerang on company growth and vital new development.

- **"Must Have Been a Beautiful Baby."** Ever look at one of your fellow executives and wonder what a mixed blessing he must have been to Mom and Dad? This month's cartoon feature (*As the Twig Is Bent,* p. 18) looks under the Homburgs of some of today's most dignified executives—and finds a few Davy Crockett hats.

—THE EDITORS

THE
MANAGEMENT REVIEW

VOLUME XLVI, NO.

Contents ■ *October, 1957*

FEATURES

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BUSINESS DIGESTS OF THE MONTH

Trends and Perspectives

Management Policy and Practice

Cover photograph: H. Armstrong Roberts

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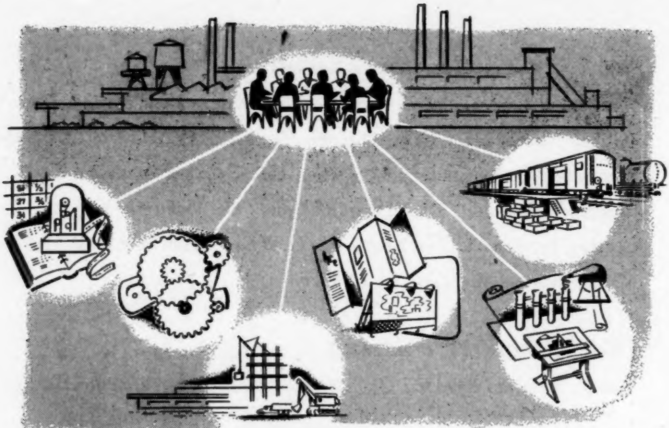


COMMITTEES:
their role in management today

"The best committee is a committee of one."

"A committee is a group that keeps minutes—and wastes hours."

Though the sideswipes that have been taken at committees and committee work are legion—and their critics today are, if anything, more vociferous than in the past—management by committee has become too important a way of corporate life to shrug off with an epigram.

What has put it to the forefront? Even the most cursory glance at the current literature of management and the programs of top management conferences indicates that the focus of attention has been increasingly on decentralization—of physical facilities, yes, but even more importantly, toward decentralized decision making. This has been the natural result of continuing industrial growth—a logical means of reducing the penalties of size. No longer would any progressive management spokesman define a corporate institution as "the lengthened shadow of one man." Today there is abundant evidence that the emphasis is on teamwork—not only

on the production floor, but, almost of necessity, inside the "front office." As William T. Gossett, vice president and general counsel of the Ford Motor Company, put it:

> The modern management system is marked by cooperative effort, rather than the brilliance of individuals. For a number of sound reasons, the typical large corporation is run by committees. No one person can begin to grasp all that needs to be known about the operation of a great enterprise. No individual judgment is likely to be consistently superior to the aggregate judgment of seasoned professional groups.

This view is reflected and reiterated so frequently in recent statements by industrial leaders that it has become timely to ask: What is the role of committees within American industry today? Are committees being used for information, for advice, for decision? How much authority do committees actually wield?

THE MANAGEMENT REVIEW SURVEY

To get at some of the answers, The Management Review surveyed 79 high-level executives from various-sized companies (chiefly manufacturing) at the recent AMA General Management Conference. On balance, their replies indicate that management by committee is a growing trend: There are more committees per company today than five years ago. Moreover, today's committees seem to carry a significant degree of authority. Many are making major decisions. And in at least one area—new product development—decision by committee is apparently more prevalent than either decision by an individual executive or decision by a board of directors.

At the same time, the survey results raise some interesting questions about the true locus of control and authority in committee management. These will be discussed later.

THE SAMPLE

First, a word about the sample: Of the 79 respondents, 51 are in top-management jobs (i.e., presidents and other company officers and general managers with broad administrative responsibilities) and the remaining 28 can be described as middle management (i.e., sales manager, division manager, factory manager,

etc.). Of the 79 executives surveyed, 29 are from small companies (under 500 employees), 32 are from medium-sized companies (501-5,000 employees), and 18 are from major corporations (over 5,000). These executives belong to 214 committees, all told.

The load of committee work varies, of course. For example, two of the executives surveyed did not personally belong to any committee at all; at the other extreme, one man reported membership in 30. In general, however, the survey found that executives are active on two or three committees, the average being two for top managers, three for middle managers.

MORE COMMITTEES TODAY

Numerically, committees are on the increase. Fully two-thirds of all respondents report that their companies have *more* committees today than five years ago. Just one in five reports "about the same" number; only one in nine says the number of committees within the company is falling off.

The trend toward committee management is by no means confined to large companies, either. It seems to affect organizations of all sizes. Of the 29 respondents from small firms, three out of four say committees are on the increase. Of the 32 larger companies represented, a similarly large number—73 per cent—also report committees are multiplying. Of the 18 major corporations surveyed, 53 per cent report increases.

FUNCTIONS OF COMMITTEES

From the preceding, it's clear that there are more committees today. But what is their role in decision-making? In asking executives about the *functions* of management committees, the survey requested that they answer in terms of the *one* committee (nonboard) on which they serve whose work they know best. Since respondents in this survey represent mainly the upper executive echelons, the committees they know best, of course, are policy groups. The company committee most cited by all respondents—it was named in 40 per cent of the answers—is an Executive Management Policy Committee. Close to half the top-management group and over a third of the middle managers chose it as the committee they "know best." Second most cited single committee for both

management groups was the Committee for Product Research, Design, or Evaluation. More than one in four middle managers named this, however, as compared to about one in seven top managers.

As might be expected, almost all of them—65 of 73—report that the committees on which they serve exchange views and information. Another 59 "make recommendations," while 56 "generate ideas." But the significant finding is that 48 of the committees—about 66 per cent of the sample with which respondents had had most experience—make "major" decisions.

Asked if the committees within their companies have "more, less, or about as much power" as five years ago, two-thirds of the executives replied, "more." Just over a quarter felt that the degree of authority was unchanged, and only 7 per cent considered it less. This is the only question in the survey that asked directly for an evaluation of power, and the weight of the answers seems to show very little doubt in the respondents' minds about which way it's going.

When the results were broken down by management level, the same answer was given by both top and middle management: Committees today have more power, say 65 per cent of top management, 71 per cent of middle management; "less," say 7 and 8 per cent respectively; "about the same," reply 28 and 21 per cent.

Furthermore, both groups are pretty well agreed that the present distribution of power is "right." (This was the answer for 71 per cent in the top group, 72 per cent of middle management.) All votes counted, fully three-fourths of the executives surveyed say the present setup, with regard to authority, is as it should be; and one-fifth of the respondents would even give committees more authority. Only 7 per cent favored cutting back on the present powers of committees.

WHO MAKES THE KEY DECISIONS?

With regard to major company decisions, how is authority distributed among individuals, boards of directors, and committees? To get at the answer, the survey sought to establish who, within the companies, makes the key decisions in eight major areas: pricing policy, new products, advertising and promotion, long-range

planning, major capital investment, production volume, personnel policy, and hiring executives. Specifically, respondents were asked to designate whether decisions in these areas are actually made by (a) an individual executive, (b) by the board of directors, or (c) by some other committee. (The responses to this question are reproduced in full in the accompanying chart.)

In five areas—pricing, advertising and promotion, production volume, personnel policy, and hiring executives—an individual executive is still the ultimate authority, the survey found. He makes the decision in more companies than do the board of directors and any other committee combined.

And in two areas, the board of directors generally rules: one is capital investment, a logical province for the board to dominate since, as elected representatives of stockholder-owners, board members traditionally hold the company purse strings. The other, as might be expected, is long-range planning—though in this area the decision itself is often a matter of choosing among alternatives originally developed by committee.

Responsibility for Key Decisions in Eight Major Areas

Decision Areas (And Number of Respondents)*	Key Decisions Made By		
	Individual Executive	Board	Other Committee
Pricing policy (73)	40	15	20
New products (74)	21	19	42
Advertising and promotion plans (74)	46	11	22
Long-range planning (73)	20	33	24
Major capital investment (74)	21	45	16
Production volume (72)	39	9	26
Personnel policy (74)	43	9	27
Hiring executives (73)	54	13	10

* Because some executives checked more than one answer, the total in most cases exceeds the number of respondents.

The interesting thing, however, with regard to decisions on capital investment and long-range planning is that companies leave these decisions to executives and, significantly, to non-board committees as often as they do. With regard to capital investment, decisions are made by non-board committees in 16 cases (as compared with boards in 45 and individual executives in 21). True, this is a minority, but the notable fact is that it's such a healthy one! As for long-range planning, the decisions rest with a non-board committee in 24 companies (as compared with the board in 33 companies and individual executives in 20).

And in one field—new products—non-board committees have more say than any other group. A number of departments obviously must be coordinated to develop new products. These include research and development, production, pricing, advertising, and sales promotion, to name only a few. As a result of this need for coordination, most companies leave new-product decisions to a committee. Forty-two committees make new-product decisions, the survey found, as compared with 21 individual executives and 19 boards. Middle-sized companies, incidentally, are the most likely to turn over the new-product decision to a committee.

Thus we find that non-board committees have some influence at least in two vital areas—capital investment and long-range planning. And in a third—new-product development—non-board committee decision is more prevalent than any other kind.

COMMITTEE ORGANIZATION AND CONTROL

The survey also took a close and detailed look at committee organization. If there are more committees, if they're making major decisions, and if they are acquiring still more authority, it might be interesting to see how they're made up—and where they come from.

Almost half the committees considered—and these tend to be the most important ones in the company—are appointed by the president and, if not by him personally, by another company officer or top-level manager. Almost all committees (70) have permanent chairmen. (Several respondents, incidentally, took trouble at this point in the questionnaire to comment on the im-

portance of having capable chairmen if the committee is to be effective and represent the concensus of membership.) Where the president himself serves as chairman (in about 30 per cent of the committees having permanent chairmen), the committee he presides over is almost invariably a key policy group.

Thus it's apparent that the company president maintains a certain amount of control over committees through his power to appoint them. He's inclined, however, to delegate the chairmanship for all except the most powerful bodies. This is particularly true of larger companies, where there are too many committees to make direct participation feasible and where, in the interests of conserving his own time, the president must depend upon committees to recommend decisions.

By his power of appointment, then, the company president usually controls the committee's organization. But does he also dominate its activities?

Apparently he does not tell the committee what to do, and neither, by and large, does the chairman. Most committees—82 per cent of those considered here—work from agendas, which are usually drawn up on the basis of members' suggestions. In only 13 out of 66 cases does the chairman alone propose the agenda. All in all, most committees have complete latitude in arranging their own business.

But how about the decisions themselves? Are they really made by the committee? Respondents were asked: "Do you think committee decisions are, in effect, determined in advance by powerful individuals?" Two out of five men say this happens "occasionally," and another one out of five think it occurs "often." Top management is more likely than middle management to feel individuals determine decisions. Forty-one per cent of top officials and 32 per cent of middle managers say strong individual influence is often felt. Fifty-three per cent of top management and 58 per cent of middle management say that such influence is brought to bear "occasionally."

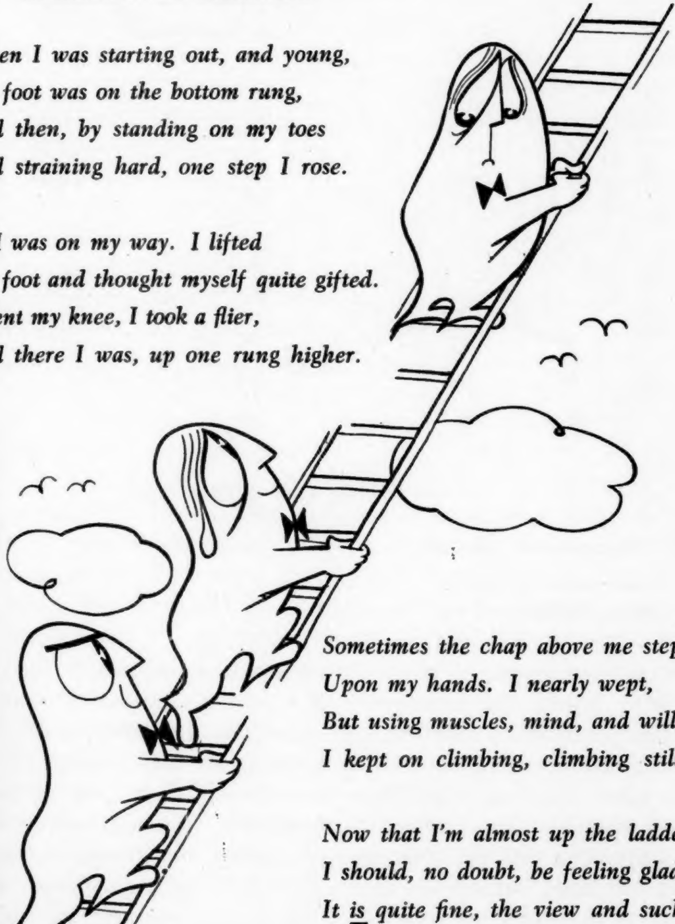
The notable fact is that less than 10 per cent of both top and middle management report domination by one individual occurs

(Continued on page 75)

Ladder of Success

When I was starting out, and young,
My foot was on the bottom rung,
And then, by standing on my toes
And straining hard, one step I rose.

So I was on my way. I lifted
My foot and thought myself quite gifted.
I bent my knee, I took a flier,
And there I was, up one rung higher.



Sometimes the chap above me stepped
Upon my hands. I nearly wept,
But using muscles, mind, and will,
I kept on climbing, climbing still.

Now that I'm almost up the ladder
I should, no doubt, be feeling gladder.
It is quite fine, the view and such,
If just it didn't shake so much.

—Richard Armour

Management ... and its publics

■ *Theodore V. Houser*

Chairman of the Board
Sears, Roebuck and Co.

ALL BUSINESSES, no matter how big, are accountable to many groups beyond the confines of their own organizations. Stockholders, customers, suppliers, the community, the public at large, the government—all have certain expectations from management. In some cases their expectations are relatively explicit, as in the case of stockholders, customers, and suppliers. The relationships of a corporation with the community, the public, and the government are less direct but not less real, and need to be given thought as part of the broad spectrum of management responsibility.

RELATIONS WITH STOCKHOLDERS

The primary factor involved in balancing the interests of stockholders and management is the relation of dividend rate to earnings.

Here management has a fundamental responsibility to take into account both a short-term and a long-term evaluation of the national economy.

It is possible to have in existence at all times a reasonably well-detailed program of growth and its collateral problems. The specific problem with which management must be concerned here is how much money will be required year by year for new plant and enlarged working capital, and what portion should be supplied by retained earnings.

All stockholders have a right to know the attitude of management toward reinvestment of earnings. If a particular business is of such character that reinvestment of some portion will yield returns reasonably in line with those on present investment, then stockholders should know that management intends to carry out this policy. Thus, those investors who expect the maximum current dividend rate will know that they cannot look for it here, and the composition of the stockholder groups will shift to those content with a somewhat smaller current return, but who want to hold stocks with growth potential.

Corporate policies are not and should not be related to any human span of life. But stockholders are human beings or are legal entities with interests bound by certain human lives, and many people, if not most, want to share right now in any prosperity which can be achieved. Management must realize that not all people want to deny themselves for the presumed greater good of their children and grandchildren. It must arrange its expansion and improvement programs in such a way that current dividend rates will hold the favorable judgment of the investment public reasonably well and yet not jeopardize the rightful place of the corporation in the nation of the future.

Turning to the short-range viewpoint, both large and small stockholders place a high value on regularity and uniformity of dividends—at least uniformity of never being reduced. This re-

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This article is based on one of the 1957 McKinsey Foundation Lectures, delivered by Mr. Houser at the Graduate School of Business, Columbia University. The complete text of this paper, together with two others in the same series by Mr. Houser, will comprise a book entitled *Big Business and Human Values,* to be published next month by McGraw-Hill Book Company.

quires a dividend rate set at a level that will permit such uniformity independent of minor ups and downs of earnings. I know of no precise way of determining the happy balance between these various considerations. The important thing is to make sure they are taken carefully into account and to make the best possible judgments on them.

RELATIONS WITH CUSTOMERS

Relationships with customers are governed largely by the competitive character of our free capitalistic society. The essence of this system lies in the fact that each individual enterprise must compete for the customer's favor.

This concern with the consumer's desires has resulted in a continuing drive on the part of producers and distributors in this country to pass along to the purchaser the fruits of technological improvements expressed in terms of better values, lower prices or greater desirability. The quality of an item of merchandise is determined by the raw materials, processing and workmanship expended on it at the point of production.

Since the distribution process adds nothing to the intrinsic value of the article, the distributor must give great attention to costs so that benefits achieved in production are not dissipated by costly distribution methods. Improvements that permit wider distribution can frequently be magnified by the improvements and economies in production methods that larger volume permits.

The vigorous competition for the customer's favor leads to relatively small profit margins, as compared to other countries, with a greater emphasis on the rapid flow through the whole sequence of manufacture and distribution, so that the relatively low unit margin may still yield an adequate return on capital employed. It is a rigorous system, but it has produced the greatest quantity and variety of consumer goods the world has ever known.

In our own approach to our customers, we have taken the position that the more informed they are, the better customers they will be. We have gone to great lengths to keep them informed—through full disclosure of merchandise characteristics in detailed catalog copy, informative labels, and so on. We believe in giving customers all the facts so that they can make sound decisions.

As a further effort along this line, we supply objective teaching aids (with no reference to Sears merchandise) to home economics departments of the high schools and to organizations of homemakers to help them in their efforts to improve the buying skills of oncoming generations. We go on the assumption that the public should know more about what to look for in buying merchandise. This reflects a basic confidence in the public—and no lack of confidence in ourselves.

RELATIONS WITH SUPPLIERS

A third area of relationship that is primarily economic in nature is that of the company and its suppliers. Every large corporation is dependent on many small businesses, either upstream or downstream, which form part of a sequence or channel bridging the gap between raw material and the consumer. Each channel is composed of a given grouping of manufacturing operations, sales activities, and wholesale and retail functions.

One channel consists of the large manufacturer, who within the framework of his own organization carries on research, product determination and design, direct manufacturing operations, and advertising and selling. These corporations sell to distributors who carry out the warehousing and wholesaling function and, in turn, sell to thousands of independent, relatively small dealers. These dealers do not have the resources to create a consciousness of their goods on the part of the public, so they are dependent upon the large manufacturing corporation to create the kind of product and publicity which will constitute their bid for consumer preference. The entire cycle, a series of interdependent relations between the large corporation and thousands of small businesses, is the way most goods are made and reach the public.

Another channel between raw material and customer has developed where the large corporation owns the retailing facilities, and from this position is able to set up a new and challenging method of operation. Here the responsibility for research, product design, and development lies with the large retailer. He reaches back for manufacturing facilities and, because he is a retailer with an interest in practically all varieties of consumer goods, he requires manufacturing facilities in many different lines.

So it is not a case of competition under unequal odds between large and small manufacturing or between the large corporate retailer and the independent dealer, because in each case the small has an affiliation with a big, and each system has won a place in the American economy by the free choice of the consumer.

In our case at Sears, we recognize the desirability of spelling out a long-term affiliation in a contractual way. The advantages in terms of decreased cost and improved production from newer equipment and more advanced techniques are far greater than any temporary advantages which might be gained by shrewd bargaining. In these long-term contracts, profit margins are specified, based essentially on a reasonable ratio of profits to investment. Billing prices are tentative and at year-end a determination of actual costs and profits is made, with any savings shared.

This policy has many advantages. It is first of all an answer to those who believe that the big corporation plays one smaller business against the other. It permits a firm foundation for long-term planning jointly by both parties. It insures that the fruits of research will be available, and, not least important, it puts a premium on uniform production schedules week after week, because of the potential savings thus shared.

MANAGEMENT AND THE COMMUNITY

The responsibility of a business to the community in which it operates is primarily social, rather than economic, in character. In many ways, the obligations of the corporate citizen are greater and more far-reaching than those of individual citizens simply because of the corporation's greater resources, in terms not merely of money but of special skills and experience.

One aspect of Sears' community relations activity which could be picked up and carried out more generally by other corporations involves the recognition of a community problem, the organization of a plan to deal with it, and then the donation of a relatively small amount of money to generate an enormous amount of constructive activity by others.

This activity first started in the southern states, whose agricultural economy was depressed because of one-crop farming with its consequent soil depletion and erosion. Agricultural authorities were

encouraging crop rotation and grassland development, but this required a livestock population if it was to be effective. A project which came to be known as a "chain litter" plan was established whereby a gilt (a young, unbred, female pig), a heifer, or a quantity of baby chicks was given to farm boys and girls on condition that some of the offspring be donated to other boys and girls, each succeeding gift on the same condition. The service of pure-bred bulls was made available in many communities. Prizes for preserved foods were given to encourage conservation of fruits and vegetables. Most of these projects were conducted through organizations of farm youth, such as the Future Farmers of America and the 4-H Clubs, on the theory that greater progress could be made with young people than with those already set in their ways.

These programs have since been extended to every state in the union and are now being further extended to the Latin American countries where we are established. Their impact after some 20 years has been phenomenal. In a single Alabama county, eight gilts were donated to start a project. An enterprising county agent undertook to keep track of the resulting offspring. When he gave up seven years later, he had counted over 7,000 offspring from the original eight. In the state of Texas, approximately 90 per cent of all swine now exhibited at state and county fairs are the progeny of swine originally donated by Sears.

We have many other agricultural programs—some 80 in all. They include projects concerned with wildlife conservation, reforestation, farm wood lot operation, grape culture, turkey raising, and almost every other facet of farm activity.

Collectively, these programs over the years have made a substantial contribution to the strength and stability of American agriculture. But many individual projects are modest, often costing less than $50 each. Programs such as these need not be the exclusive province of the larger corporation. Even the smallest company having an interest in agriculture can help a boy or girl get started with a pure-bred animal or otherwise assist in encouraging better agricultural practices. Just as our programs have great cumulative impact, the individual efforts of many smaller concerns, added together, can set in motion powerful forces for improvement.

(Continued on page 80)

As the Twig Is Bent . . .

THE CHILD, they say, is father of the man. And though it's a long, long journey from bassinette to board room, certain childish characteristics, it seems, endure. Consider, for example, these prototypes of some of today's executives—as they were:

Quiz Kid. This child wonder missed his calling as a TV panelist, but his stock in trade continues to be the quick answer, the new angle, the bright idea. When it's time to iron out the practical details, however, he retires to his isolation booth.

Mama's Boy. There'll never be another . . . but they wouldn't give Mom a desk at the office. Fortunately, he has a secretary to guard his door, locate his overshoes, and worry about his diet.

Jealous Heart. Seeing him play alone (with the toys he wouldn't let the other kids touch), his parents marvelled at how well he entertained himself. Now, jealous of his prerogatives and refusing to delegate, he keeps himself nicely occupied in the office long after everyone else has gone home.

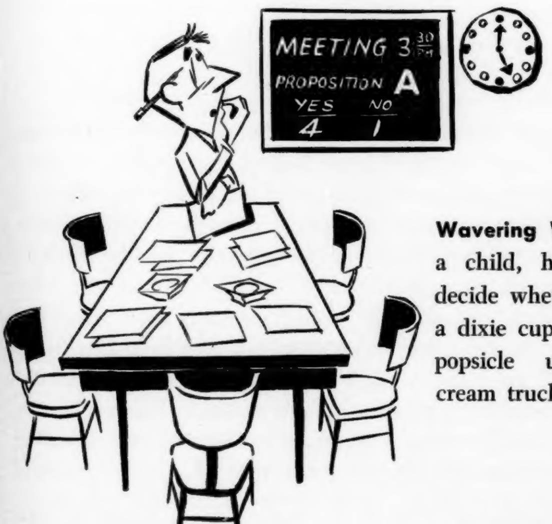
Tantrum Tommy. When he used to hold his breath and turn blue, his parents were afraid he'd choke. Though the same thought sometimes occurs to his subordinates, they know that wishing won't make it so.

The Joiner. Former cub scout, space cadet, Texas Ranger, and junior G-man, he still revels in the "togetherness" of the group, however indifferent he may be to its purpose. Member of 23 committees, contributor to none, he'll join *yours* in a minute if you ask him.

The Mascot. Always managed to endear himself to the big-leaguers by his winsome ways and amusing antics. Play on the team? Who ever thought of that?

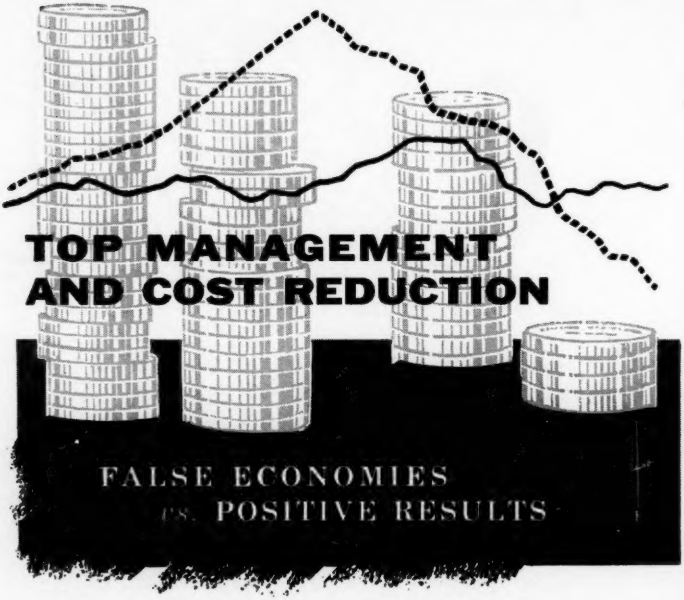
The Collector. This lad had the biggest collection of box-tops, agates, matchbooks, hat buttons, and cigar boxes in the neighborhood. And you ought to see his files today!

Look! No Hands! Away from the office too much of the time, but confident that things will just run themselves, he's the little man who isn't there—at least not for long.



Wavering Willie. Even as a child, he could never decide whether he wanted a dixie cup or a chocolate popsicle until the ice cream truck had gone.

■ *Drawings by* Joe Guarino



TOP MANAGEMENT AND COST REDUCTION

FALSE ECONOMIES *vs.* POSITIVE RESULTS

■ ***E. Lee Talman***

Administrative Vice President
Lever Brothers Company

MAJOR OVERHEAD REDUCTION is rarely achieved, short of complete corporate reorganization, through large dramatic steps. Usually it is accomplished by a series of undramatic but systematic efforts—relatively small improvements which are not earth-shaking in their individual importance but which, in the aggregate, can be made to add up to an impressive total.

Cutting overhead is not easy. We have only to witness the struggles of our federal government to realize that even intelligent men of good will can't always agree as to the "how" or "how much" of overhead reduction. But one thing is certain. Successful cost reduction is in large measure the result of internal climate. The will to save must start with the chief executive officer and continue

This article is based on an address by Mr. Talman before the special AMA Office Management Conference on Controlling Nonmanufacturing Costs.

with the entire line organization. Staff officers can and must help, but the opportunity for better profits will never be fully realized unless those with final executive authority are willing to pay the price in time and consistent effort—and in decisions which are not always easy to make. Everyone wants to cut overhead. But not everyone is willing to do the things necessary to cut overhead.

Without the right climate, the job can't be done. Practically all senior executives and supervisors are willing to beat the drum for abstract economy. But are they willing to alter an uneconomic procedure that may be an entrenched pet? Do they preach economy today—and indulge their own extravagances tomorrow? Do they insist upon reports and analyses which merely gratify curiosity but which can't, in fact, lead to constructive action? Are they sufficiently courageous to take the hard-boiled action that is sometimes necessary when methods are changed? And, most important, will they give sustained and continuous support to new programs during the troublesome and difficult days when changes are being made?

New methods don't always work smoothly at first. If the man in charge of executing changes does not have the full confidence and sustained support of his superiors during the transition period, the whole organization quickly learns that it doesn't pay to be a pioneer. This is one of the reasons why so many people are unwilling to accept new ideas: Their experience has taught them that change too often means work and criticism without commensurate reward. Here is an attitude that must be changed, not by words, but by example and deed.

Although no organization ever achieves a perfect climate, we in Lever Brothers believe we do have a climate which encourages and rewards imaginative thinking and accomplishment. In five years our accounting staff has been reduced in number by 50 per cent. Despite the fact that average salaries and machine rentals have risen, over-all costs in this area have been cut by one-third or about one-half million dollars.

This was achieved partly by cutting out the unnecessary, although today we provide more and better reports and analyses than we did five years ago. We were also able to cash in on new systems and procedures, some of them made possible by electronic business machines. But the savings are primarily the result of hundreds of

small improvements conceived and executed by men all up and down the organization line—encouraged, consistently backed, and rewarded by top management.

There is one other facet of this climate problem which deserves brief discussion: Good ideas don't always come in pretty packages. Modern business is setting an increasingly high standard for report writing. We are all becoming perfectionists. One of our officers once said in a moment of irritation, "What this business needs is an executive who will O.K. a report that is not written as well as he could write it himself—for action which will not be as well executed as he could do it." In other words, let's take care not to discard a good idea merely because it may not be clearly presented or well documented.

This is not to say that there is nothing the lower-echelon man can do about costs if his chief executive officer doesn't create the right climate. Such a thought is sheer evasion of responsibility. Although climate stems from the top, the "top" can be influenced—more often by deeds than words. By word and example, all of us (regardless of organization level) can influence over-all attitudes and contribute to a healthy climate that is imaginative and radical in thought, conservative in action.

THE NEED FOR CUTTING OVERHEAD

If an inquiring reporter stopped ten people on the street and asked why executives should cut overhead costs, he would almost invariably get the answer, "So that their companies can make more money, of course."

This is obviously true. But reduction of costs is not just a question of slightly better profits. Continuous cost reduction is essential to the survival of our individual and collective businesses—in fact, it's essential to the survival of our whole way of life.

Let's look at the forces operating in our economy which make cost reduction (per unit of output, of course) essential to our survival and salvation:

1. We live in a world where costly armaments are necessary. In this armaments race costs will increase, not diminish. Whether we have Republican or Democratic administrations makes little difference in this general trend. Nothing short of a complete collapse

of the Communist government in Russia will halt it. If we are to avoid wild inflation, the cost of armaments must be borne largely on a pay-as-you-go basis by taxes. This means that industry must pay the bill. Only a strong, fit-for-action industry, stripped of all overhead "fat" and constantly getting stronger, can support this tax load.

2. Industry generally has adopted the policy of compulsory retirement of employees at age 65; and, through social security, pension systems, and other welfare plans, industry has added materially to its financial responsibilities. This load, too, may be expected to increase in cost. Only an industry which is growing in productivity (which means lower unit costs) can carry this increasing load.

3. Industry is confronted with the practical necessity of providing virtually full employment for the labor force of the country—either directly or by taxes for public works. Further, it is a practical necessity to provide labor with an increasing real wage. And this rising cost will push our overhead beyond supportable levels unless we do something about it—now and continuously.

4. Each industry is confronted with severe competition from many directions. We have direct competition for consumers of our products. We have indirect competition from all other businesses for our share of the consumer's dollar, and all industry must compete for capital in the financial market places.

We must improve and cut our cost per unit of output—both direct or indirect—or we shall fail in the competitive race. Cost reduction is not merely a means of getting a little more profit. It's a means of survival.

To some, this analysis of our problem may sound grim and discouraging. It is not necessarily so. Instead, if we are to measure up to our responsibilities, we must look on these problems as a challenge—one that we are individually and collectively competent to meet.

Severe challenges are nothing new in the history of America. In every period of our history as a nation, we have been confronted with problems which then seemed insurmountable. Every time, American free enterprise has measured up to its responsibilities, and we have not only survived but forged ahead. We shall do so again—

but only if we recognize our problems and tackle them vigorously. Indifference built on the theory that somehow we'll muddle through again can lead to ruin. And one of the major problems to which we cannot afford to be indifferent is this need to improve our productivity constantly. One important way to do this is to do a better job in controlling costs of all types.

FOUR BASIC TECHNIQUES

There are four basic techniques by which overhead may be reduced. In actual practice, most successful cost reduction programs are a combination of one or more of these techniques or methods:

1. Cost reduction imposed by central organizational authority.
2. Cost reduction as a result of employee suggestions or ideas.
3. Cost reduction through evaluation of staff functions.
4. Cost reduction through "imagineering."

COST REDUCTION IMPOSED BY CENTRAL AUTHORITY

Every modern business operates with some orderly system of projecting the probable financial results of future operations. In our company we do this on an annual basis, with revision every four months. Of course, we also make other profit projections on a longer-term basis. And, while our operations are continuously reviewed in the light of day-to-day conditions, it is generally in the fall of the year that our plans for the next year are formalized into the annual budget.

This annual budget reflects two distinct types of plans: (1) most important, it reflects basic manufacturing and marketing strategy; and (2) it reflects what we plan to do and spend in the so-called overhead area of our business.

If you try to do all this planning and budgeting in the last few months of the year, you will probably find yourself with an impossibly crowded time schedule. When these plans are being finalized (or as nearly finalized as they can be in a competitive business), it's no time to try to give careful and critical attention to overhead costs.

We therefore schedule our review of overhead, department by department, on a staggered basis in advance of the time when our

(Continued on page 84)

The Growing Shortage in Skills

THE U.S. IS FACED with a new kind of labor shortage that threatens to check its industrial expansion. It is not a shortage of workers but of skills. According to the Labor Department, unfilled demands for skilled workers have jumped 17 per cent over last year, as against 9 per cent for other workers. The U.S. employment office in Cleveland reports, for example, that it is getting 1,000 applications each month for skilled metal workers and is unable to fill them.

Many factors are responsible for the shortage of skilled manpower. Because of the low birth rate in the 1930's, the proportion of men in their twenties (the training age) has dropped drastically, while the total work force has rapidly increased. Unions are also at fault. Some, still thinking in Depression terms, limit the number of apprentices they will accept for training. More important, the emphasis of industrial unions on raising the pay of the unskilled has discouraged workers from learning a trade, especially since apprentice wages are far less than unskilled pay. The skilled worker's pay advantage over the unskilled dropped from 80 per cent in 1932 to about 40 per cent in 1957. During the same period, the social feeling against "blue-collar" work has increased.

But perhaps the biggest reason for the shortage is that U.S. industry has not faced up to the fact that the tremendous expansion of the economy, plus automation and the increasing complexity of machines, has created a tremendous new demand for skilled workers. Chrysler Corp., for example, needed only six skilled workers out of every 100 in 1938; now it needs ten. Yet U.S. industry is training only one apprentice for every 50 skilled workers, far less than even the replacement rate.

To meet the shortage, the Ford Motor Co. recently dropped age limits for its on-the-job training classes, opening them to all employees who meet the aptitude requirements. Other industries in many areas are making a direct attack on the idea that only the backward go into vocational training. In Cleveland, the big machine-tool makers recruit high school graduating classes for their training programs with all the fervor used for seniors in engineering colleges. In Fort Worth, Convair hires high school graduates to work half a day and spend the other half, with pay, attending college-level technical and engineering classes to get credit toward college degrees.

Whole communities are getting into the act. In Bridgeport, Conn., 311 industrial plants are cooperating in studying present and future personnel needs, while at Waterville, Me., a town survey turned up worker shortages in 47 classifications and led to

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600 adults enrolling in job-training courses conducted by Colby College and local schools.

Unions are also working harder to attract trainees. San Francisco plumbers are assessing themselves a penny an hour to finance apprentice training programs. The West Coast United Steelworkers are giving $6,000 to the University of California for a pilot program for upgrading workers' skills. The most important union move to make the skilled trades more attractive was made by UAW; it decided at its convention a few months ago to permit skilled and technical workers to bargain separately for higher pay, a move that many employers welcome because it will permit them to give the bigger pay raises they think the skilled workers deserve. Despite this progress, however, employers are still unable to tap extensively one huge pool of potential skills—Negro workers, traditionally barred by many craft unions.

The chief responsibility for obtaining skilled workers and constantly upgrading their skills rests on industry itself. Today most employers realize that they are in an emergency, that they no longer can get their skilled workers by pirating them from other companies, and that the shortage will get worse unless industry assumes leadership in overcoming it. Labor Secretary James Mitchell estimates that to the 9 million skilled workers in the U.S. must be added at least 5 million more skilled or semiskilled workers by 1965; otherwise the economy will fall short of the $560 billion gross national product expected in that year.

■ TIME, *May 20, 1957, p. 114:1.*

How Small Businesses Can Stay Healthy

EVERY DAY small businesses spring up hopefully all over the U.S. Many survive and prosper. But many more succumb to a variety of deadly management diseases.

What's behind these failures? Dun & Bradstreet says the most common factors in business deaths in 1956 were inadequate sales (47.9 per cent), heavy operating expenses (7 per cent), difficulties in collecting receivables (8.9 per cent), inventory difficulties (7.9 per cent), excessive fixed assets (6.6 per cent), poor location (3.1 per cent), and competitive weakness (21.2 per cent).

Responsible for most of these difficulties, says Dun & Bradstreet, are some basic management weaknesses. First on their list is plain incompetence, attributed to a solid 42.7 per cent of all businesses that failed in 1956. Unbalanced management experience was the trouble in 18.2 per cent of the failures, inexperience in 17.1 per cent, and lack of know-how in the particular field or market in 13.3 per cent.

Of the 12,686 U.S. businesses that closed their doors for the last time in 1956, a vast majority were small businesses with sales under $1 million. The 1956 rate was over 9 per cent above the year before, and the 1957 rate is running 17 per cent above last year.

Since general management incompetence is a major cause of failures, many business observers take a cynical view of the mortality rate: They see it as a necessary shake-down, or weeding out process. But even taking this view, only two out of every five business failures could be considered hopeless cases.

Inexperience and unbalanced experience, for example, are management diseases that can be cured through diagnosis and treatment. Dun & Bradstreet's figures are borne out by the experience of management consultants who concern themselves with the problems of small business.

"Too much emphasis is placed on either production or selling," declares one prominent New York consultant. "And even where a healthy balance exists, the management of money is neglected."

A striking example of poor money management is seen in the case of the dairy products company that had been doing 60 per cent of its volume in butter. When a consultant was called in to help expand this end of its business, an analysis of the profit and loss statements over the previous ten-year period showed, to management's amazement, that the company had taken a loss on butter every single year. The profit figures from butter, ice cream, and "artificial" ice had been merged, and the management simply hadn't realized that profits were actually coming from the company's low-volume products, not the high-volume butter production. So, instead of expanding the butter production, the company curtailed it.

Not many companies can survive such an oversight. But the point is that small companies often do not organize their accounting to provide management information needed for decision making. Over-all figures are there, but not a meaningful breakdown of costs, expenses, income, and profits. One answer is a closer working relationship between accountant and manager.

One of the worst tendencies of small-business management, says Thomas McMahon of the Chase Manhattan Bank, is losing sight of the importance of cash. "Keep in mind that it is cash, not inventory or receivables, that pays the bills," he cautions. "If additional sales volume can be gained only by carrying slow receivables, the prize is usually not worth the game . . . Avoid an excessive investment in inventories. The moment a company's inventories exceed the amount of net working capital, cash and receivables are insufficient to cover current liabilities."

The small businessman should also avoid excessive investment in fixed assets, says McMahon. High fixed costs tend to increase the breakeven point, and they may well become burdensome in slack periods.

McMahon recommends that small companies give serious consideration to equity financing when business is going well. "More loan applications are rejected because of insufficient

ownership capital than for any other reason," he says.

If equity shares are carefully dispersed, control can be retained with a fraction of total ownership. Or nonvoting common stock can be issued.

Many small businesses suffer from a tendency toward unbalanced operation. More often than not, there is a "key man" who started the business or was hired to start it. He knows one area of the business well and he tends to concentrate on his specialty. He also is likely to undermine the authority of second-line managers, by firing a worker without their consent or arbitrarily reversing their decisions.

Another consequence of management imbalance or inexperience is a lack of control systems. Purchasing is a perpetual emergency. Production costs and checks are not adequately reported, often not even asked for.

McMahon urges that small businesses emphasize flexibility. "The ability to change direction, pursue new product lines, diversify, retrench, in fact, to follow whatever policy the occasion dictates, is the keystone of success."

■ Management Digest, *August, 1957, p. 55:3.*

Europe's Booming Economy: Challenge for U.S. Business

THE 20 WESTERN EUROPEAN NATIONS, which already constitute the world's second richest market, will continue their economic growth—both in consumption and productivity—at a rate greater than that of the U.S. This growth will bring rich opportunities and some problems to U.S. businesses.

Data compiled by J. Walter Thompson Co. in its recently published book, *The Western European Markets* (McGraw-Hill Publishing Co.), show that in 1955, 59 per cent of European personal spending was for essentials—food, clothing, and shelter. This ratio is steadily declining, with more and more funds available for nonessential purposes.

Projections of present trends indicate that by 1980 the U.S. will enjoy an increase of 100 per cent over 1950 in personal-consumption expenditures, while such expenditures in Western European countries will rise 135 per cent. Moreover, while U.S. exports and imports will rise 175 per cent and 180 per cent respectively, European exports and imports will rise 288 per cent and 247 per cent, giving Europe a favorable balance of trade.

Today, the U.S. accounts for 11.7 per cent of the imports of Western Europe and 6.7 per cent of the exports. In the future, European exports will increase tremendously and one of the markets will be the U.S. This means that U.S. manufacturers will be hard pressed by aggressive selling efforts from abroad. However, they can offset this by tapping the increasingly wealthy market of Western Europe.

—*Printers' Ink* 7/12/57

Motivation Research: Matching Ad to Id

AMERICA'S advertising industry is moving into a commanding role in our society. Its executives are becoming masters of our economic destiny, the engineers behind some of our most successful political campaigns, major patrons of our social scientists, dictators of the content of most of the radio and television programs we hear, judges with life-and-death power over most of our mass-circulation magazines. Also, they have become our most powerful taste-makers.

They have, in short, become major wielders of social control in America in this second half of the twentieth century. Their power to do good or non-good is becoming massive, and many are using their power irresponsibly.

This growing power of advertising men derives from the dominant role that selling plays in our current economy. In the executive suites of thousands of corporations the main preoccupation is no longer with production problems but rather with selling problems.

A major problem of marketers in moving their goods into our homes is that of making us discontented with what we already have, since most of us already own perfectly serviceable automobiles, washing machines, refrigerators, and clothing. We must be persuaded that the old product has become hopelessly inadequate to meet our needs or desired style of living. Advertising men call this "creating psychological obsolescence."

Another development adding to the power, glory, and prosperity of advertising men is the increased standardization of competing products. Perhaps connoisseurs can still detect significant differences in gasolines, whiskeys, cigarettes, beer, tires, cake mixes, and detergents, but most of us no longer can. It is the advertising man's genius that makes products seem compellingly different in our minds.

A third reason for the increasing influence of admen is the growth of self-service selling at supermarkets, vending machines, and so on. The customer must be presold, through advertising, so that he will have the product's image firmly etched in his mind as he enters the market place.

The advertising agencies, in their straining to become more persuasive, have been spending millions of dollars on research designed to learn more about the consumer. Although much of this motivation research is more hunch than science, most of the nation's largest producers of consumer products have been turning to it in an effort to increase their sales penetration.

Some of the techniques used to probe consumer motives have been borrowed straight from psychiatric clinics and sociological laboratories: the depth interview (a miniature psychoanalysis without the couch), projective pictures and word association tests, galvanometers (lie detectors), hypnosis, and social-layer analysis. When our motives are

fathomed the experts then shape and bait psychological hooks which will bring us flopping into their corporate boats.

Several of the uses to which the insights are put strike me as constructive, or at least nonobjectionable. The technique of gearing appeals to the social class most likely to enjoy your product would seem to be a step toward rationality in marketing. Motivational analysts have also performed a constructive service by showing advertising men how to conquer unreasonable prejudice against a product. A classic job in this respect was performed on the prune by a well-known MR firm and advertising men of the prune industry. Prunes simply were not selling, and the MR firm was asked to find out why. Its depth-probers found the prune, in our society, had become ridden with a host of connotations, all unfortunate. Under the MR firm's guidance the prune has now been "rediscovered" as the "California wonder fruit," and admen now almost always show it in gay, zestful, youthful, colorful settings. The prune industry, at last reports, is showing a hearty revival.

Still another way that the depth approach can perform a valid service is to help people achieve a feeling of self-worth through advertising. A producer of steam shovels whose sales were lagging discovered from a motivation study that steam-shovel operators play a large role in influencing the decisions of purchasing agents, and shovel operators did not like the shovel in question. Further study revealed that the operators subconsciously felt their role was belittled in the company's ads, which depicted the operator as a barely visible figure inside the distant cab. When the advertising men were advised of this source of irritation they began taking their pictures over the shoulder of the operator, with the operator shown as the confident master of the machine. This new approach reportedly brought a marked mellowing in the attitude of operators toward the shovel advertised.

Several of the techniques being used on us by certain of the advertising men (and their scientific allies), however, do give cause for concern. These are the techniques designed to catch us when our conscious guard is down. Here are some of the types of operation I have in mind:

1. *Appeals designed to play upon our hidden weaknesses.* At one of America's largest advertising agencies, staff psychologists have been exploring the subconscious of sample humans in order to find how to shape messages that will have maximum impact with people of high anxiety, body consciousness, hostility, passiveness, and so on.

2. *Strategies involving the manipulation of children.* The agency just mentioned also conducted a study of the psyche of straight-haired small girls to find out how best to persuade them and their mothers that the girls might feel doomed to ugliness and unhappiness if they were not somehow provided with curly hair. The agency was trying to promote the use of home permanents on children.

3. *The use of subthreshold effects to slip messages past our conscious*

guard. Some advertising men have been investigating, very quietly, the possibility of inserting "flash" sales messages in TV and movie film. The bits of film flash by so fast they are not "seen" by the conscious eye, but are reportedly seen by the subconscious eye.

4. *The deliberate sale of products for their status-enhancement value.* Automotive advertisers have hammered so long and loud on the theme of bigness that many Americans feel socially insecure in a small or medium-sized car.

5. *The creation of illogical, irrational loyalties.* This occurs most conspicuously in the promotion of gasolines, cigarettes, whiskeys, and detergents.

6. *The exploitation of our deepest sexual sensitivities.* One prominent motivation research firm, for example, counseled motorboat builders that men could be appealed to through the fact that power boats can be used to express a sense of power in "almost a sexual way." A midwestern advertising agency has discovered that men can be persuaded to buy a new car by the implied promise that the new, more powerful car offers them a renewal of potency.

The responsible leaders of the industry should, I believe, review the current trends in advertising and admonish practitioners to proceed with greater consideration for the public's welfare in certain areas. As a start they might consider the following broad trends, which I believe should be viewed uneasily by thoughtful citizens:

Advertising men are pushing us toward conformity and passivity. They are tending to demean many scientists who have been lured into serving them. Many of them are encouraging an attitude of wastefulness on the part of the public toward the nation's fast-shrinking resources. One conspicuous way they do this is by deliberately striving to make us dissatisfied with the serviceable products we already own.

Finally they often seek to invade the privacy of the mind. They want to know too much about us, and the inner workings of our emotions, for comfort. We should be able to be a little irrational and neurotic at times without having to fear that we thus become vulnerable to outside manipulation.

If advertising is to represent progress rather than regress for man in his struggle for self-mastery, then these considerations must be honestly faced.

■ *Vance Packard.*
THE ATLANTIC MONTHLY,
September, 1957, p. 55:5.

STOCKHOLDER RELATIONS: Executives in Bell System companies are visiting stockholders selected at random from the list of 1.2 million shareholders of the parent AT&T Company. Information gathered will be sent to AT&T in New York, where it will be used to guide the company in its future stockholder-relations planning.

—*The Controller*

Putting New-Product Ideas Through Their Paces

TODAY'S SHIFTING MARKETS and rapidly expanding technology are breeding an ever-accelerating new-product race. New products today are the key factor not only in company growth but in company survival. This means that management must apply its keenest efforts to the organization and control of new-product programs.

New products present three basic challenges to management:

1. *The uncertainty of new-product results.* All studies point to the same conclusions:

New products are more likely to fail than to succeed.

The companies that can least afford it have the highest failure rate.

2. *The shortage of scientific manpower.* Scientific manpower can be increased in total only slowly, but immediate relief can be achieved through better utilization of existing manpower. Relatively few companies have recognized the manpower waste and morale damage implicit in the current high rate of commercial failures for completed development projects.

3. *The difficulty of organizing and controlling the new-product processes.* The most stubborn problems are those of organization, operations, objectives, and evaluation.

To plan and control this complex process effectively requires that it be broken down into segments. When the major points of management decision are charted, the evolution of a product breaks down into a series of six definitive stages:

Exploration: the search for product ideas to meet company objectives.

Determine the product fields of primary interest to the company.

Establish a program for planned idea generation.

Collect ideas through an organized network.

Screening: a quick analysis to determine which ideas are pertinent and should be fully investigated.

Expand each idea into a full product concept.

Collect facts and opinions bearing on each product idea as a business proposition.

Appraise each idea for its potential value to the company.

Specifications: the expansion of the idea, through creative analysis, into a concrete business recommendation.

Appoint persons responsible for further study of each idea.

Determine the desirable market features for the product and their feasibility.

Develop specifications and establish a definite program for the product.

Development: turning the idea-on-paper into a product-in-hand, producible and demonstrable.

Establish development projects for each product.

Build product to designated or revised specifications.

Make complete laboratory evaluation and release for testing.

Testing: the commercial experiments necessary to verify earlier theoretical judgments.

Conduct "in-use" production and market testing.

Make final product decision; freeze design.

Commercialization: launching the product in full-scale production and sale.

Complete final plans for production and marketing.

Initiate coordinated production and selling programs.

Check results, and make necessary improvements in product, manufacturing, or sales.

A major characteristic of the new-product process is the progressive rejection of ideas by stage. In poker terms you ante a lot of times before you develop a hand you're willing to play clear through to a final showdown. The sure way to go broke is to string along for three or four cards on each hand. You get a lot of action, but you dissipate your resources—and when you do finally get those aces back-to-back you can't play the hand for what it's worth.

This adds up to one key fact: attention should be focused on the first three stages of new product evolution to avoid failures in the latter stages of development, testing, and commercialization.

In the commercialization stage, failures should occur rarely in well-managed companies, since they are skilled in producing and selling. In such companies, failure usually can be traced to an earlier stage and reflects weakness in the product concept itself.

Too many products are killed in the testing stage for non-technical reasons that could have easily been anticipated before development. In the development stage it takes just as much time and money to develop a million-dollar bust as it does to develop a ten-million-dollar bell-ringer.

By making sure that nonprofitable products don't get past the exploration, screening, and specifications stages, a company can avoid the tremendous waste involved in carrying them through the increasingly expensive latter stages.

■ C. *Wilson Randle.*
INDUSTRIAL MARKETING,
July, 1957,
p. 37:4.

How Much Do Labor Leaders Make?

NOT MANY UNION OFFICIALS' SALARIES rank with corporation executives', according to figures collected by the Department of Labor, which gets an annual financial report from every union using the National Labor Relations Board. Highlights of the report show:

Of 146 unions reporting, two-thirds pay their top official less than $20,000 per year and 50 pay him less than $12,000.

Size of the organization has little bearing on its salary schedule. For example, president J. H. Lyons of the iron workers' union, which numbers 139,462 members, receives a salary of $41,650, while the huge UAW —with 1,239,000 members—pays its president, Walter Reuther, only $22,000.

Nine top labor leaders have served in their posts a quarter century or more; half have held their jobs less than ten years. John L. Lewis has the longest tenure, with 37 years as president of the mine workers' union.

Highest union salary reported is $60,000—paid to George Harrison of the Railway Clerks.

—*Business Week* 7/6/57

"You'll find we're just one big family here— intrigues, jealousies, fights . . ."

Extra Dividends from Long-Range Planning

WHAT CAN MANAGEMENT reasonably expect to gain from long-range planning? Obviously, a viable plan establishing long-range, over-all goals for the future of the company. But beyond this, it can hope for several very significant and helpful by-products:

1. *Evaluation of management personnel.* The planning of long-term strategy provides management with a unique opportunity to watch some of its key men in action. It is helpful in judging the top-management potential of men at the middle level, and showing up weaknesses in promising younger executives which can be strengthened through special handling or further training. For decentralized companies, it offers an unusual chance to evaluate division managers. How good are their staffs? How carefully can they back up their forecasts and objectives? How broadly do they conceive the company's over-all objectives and needs? Are they running their particular business with an eye to the social and economic context of the time?

2. *Latent ideas and talent.* Any large-scale project like this may uncover people in an organization with abilities and potential which has not been suspected. But beyond turning up personnel, long-range planning may bring out latent ideas which had never reached the surface because there was no appropriate moment in the rush of daily operation. It may crystallize vague and rambling thoughts which would never have been formulated under the pressure of running the company.

3. *Spotting weaknesses.* A survey like this often spotlights company weaknesses, either internal or in relation to the competitive situation, which top management had not suspected. Further, it may indicate that a problem of which key executives were vaguely aware is actually far more serious than they had thought, and demands immediate attention. Emergency measures can thus be avoided, and serious breakdowns averted.

4. *New techniques.* Because of the detailed projections involved in long-range planning, and the mass of data that must be assembled and analyzed, new mathematical and data processing techniques often prove to be useful. Thus men can become familiar with some of these modern management tools, and the company has a chance to evaluate them against the background of their particular needs and problems.

5. *Communications.* One of the continuing problems in large companies—and in some small ones as well—is that of communication. How can the people in one function be kept abreast of the activities of those in another? The long-range planning process, by bringing all the parts of the business together in a continuing working relationship, vastly increases

the network of personal contacts upon which communication ultimately rests. It clarifies the company's goals, objectives, and policies for a sizable body of people, and provides an invaluable opportunity to clear away the underbrush of misunderstanding and confusion.

■ ACME REPORTER (*Association of Consulting Management Engineers, Inc.) 1957 Series, No. 1.*

Making Meetings Pay Off: One Company's Program

HOW MUCH TIME do you spend every week just in meetings? Do you feel the conferences you attend are worth the executive time and talent they demand?

Asking themselves these questions, the top executives of Ansul Chemical Company discovered that they and their middle management members were spending from 10 to as much as 50 per cent of their working time in meetings. They decided to take a new look at just what the meetings were accomplishing — or not accomplishing.

They found that there were no real criteria for calling meetings. Agenda were being inadequately prepared and frequently not carried out. Participants were too numerous and inadequately chosen. Decisions were often not reached, or resulted in no follow-up action. Despite, or perhaps because of these difficulties, more and more meetings were being held and proportionately less and less was being accomplished.

But Ansul's top management recognized three fundamental facts about meetings: Meetings are an organizational necessity; since you can't eliminate them, you'd better improve them. Managers are participants more often than they are chairmen; so participant training should be stressed. Meeting theory is effective only after a man has "lived" the experience or at least seen the theory demonstrated.

Ansul's next step in reform was to try to answer the question: Just what is a meeting? Here are some of the answers it came up with:

- A meeting is only one type of communications tool. Many meetings were being called when other forms of communication might have been more effective.
- There are different kinds of meetings — decision-making, problem-solving, information-giving, and decision-selling. Deciding in advance what kind of meeting to hold affects the premeeting preparation and the behavior of everyone attending.
- A meeting is only a point in time. The real payoff does not come at the meeting itself but in the subsequent action taken.

Under the guidance of a consulting firm, a plan was worked out to improve the skills of every one attending meetings. Three groups were separately trained: (1) The president, four vice presidents, and

eleven division operating managers; (2) assistant division managers and department heads; and (3) lower-level management, such as assistant production managers and sales and purchasing personnel. The major areas of study were: (1) techniques of planning and conducting meetings, and (2) dealing with the "hidden agenda" — the personal psychological factors that were obstructing communication. This training was specially aimed at the participants—to develop in them a feeling of responsibility for the meeting's success.

Bridging communication gaps between different management levels was a major problem. The seminars revealed, for instance, that lower-level managers had been afraid to speak up firmly to their superiors. Because top executives were listened to more closely, they tended to participate vigorously in any discussion. Lower-level managers, however, sat on the sidelines in most meetings simply because their opinions carried less prestige weight. A full awareness of this problem was the first step in solving it.

As a result of their training, including the vital "acting out" or demonstrating of meeting principles, Ansul managers now are aware of the elements required for a successful meeting. They are learning through doing how to put these elements together.

Today, no one is invited to a meeting unless he will be called upon to contribute—and unless his contribution will be needed. No one is invited just as a matter of protocol. Each participant knows in advance what his function will be and why his area will be under discussion. Meetings are run according to an agenda which he helped set up—and which will require him to take an active part in decision-making.

Ansul doesn't pretend that its program has been a cure-all. But the results have been clear and specific. In the case of one major committee, meetings that used to stretch out to three and a half hours have been cut to one and a half hours, and—for the first time—the agenda are being completed. Other departments and committees are spending as much actual time in meetings, but they are getting more results. When they don't, they try to hold an informal post-mortem and ask: "What went wrong? How can we avoid that next time?"

But what Ansul executives feel most strongly is that their own personal attitudes toward meetings have radically changed. What was once a procedural headache has become a creative experience and experiment in communication.

"Believe it or not," one Ansul executive put it, "now I even find myself looking forward to these meetings!"

■ *Grover Amen.* DUN'S REVIEW AND MODERN INDUSTRY, *March, 1957, p. 64:1.*

A MAN IS DOOMED not by being uneducated but by remaining so.

—Charles E. Sorensen

Who Uses Installment Credit?

WHETHER OR NOT a U.S. consumer uses installment credit depends primarily on his income, family status, and bank balance, according to The University of Michigan Survey Research Center. And if he is an installment credit user, the size of his payments is likely to increase as his income goes up, although the proportion of his income used for these payments will decline.

To get a picture of how the U.S. family uses installment credit, the Center used data from its surveys of consumer finance, which are conducted annually in cooperation with the Board of Governors of the Federal Reserve System. Results are included in a recent five-volume study on consumer credit published by the Board.

When income, age, and liquid assets (bank accounts and U.S. government bonds) are taken into account, the Center found, such factors as home ownership, education, race, or place of residence make little difference, if any, in the chances that a family will use installment credit.

Young married couples with at least one child less than six years old comprised nearly one third of all installment credit users. The mean annual rate of installment debt payments in this group was $625.

Installment payments were directly related with income, as shown in the following table:

Income	*Mean Annual Payment Rate*	*Payment as Per Cent of Income (Approximately)*
$1,000 to $1,999	$285	19 per cent
$2,000 to $2,999	$425	17 per cent
$3,000 to $3,999	$505	14 per cent
$4,000 to $4,999	$625	14 per cent
$5,000 to $7,499	$710	11 per cent
$7,500 to $9,999	$860	10 per cent
$10,000 and over	$990	less than 10 per cent

Among those who used credit, young couples without children and those with older children (all six-years-old or more) had the highest mean annual rates of installment payments, $675 and $665, respectively. Together, these groups account for about one-fifth of all installment credit users.

AMA INSURANCE CONFERENCE

The AMA Insurance Conference will be held Wednesday through Friday, November 13-15 inclusive, at the Palmer House, Chicago.

What's Happening to the Engineer Shortage?

THERE ARE DEFINITE SIGNS that the worst of the engineer shortage may be over.

Many companies with well-organized recruiting campaigns managed to fill or even exceed their quotas last spring. It is still a rare personnel executive who will say for the record that the shortage has ended; and all agree that good men are, and will remain, hard to find. But they speak in more relaxed tones, nonetheless.

In Akron, Ohio, for example, most companies report that their recruiters did better than last year. Most of them attribute their success to "less over-all demand" and a reduction in their own quotas. However, one big aircraft company says it could still use 80 to 100 engineers "experienced in radio and electronics."

Royal Typewriter Co.'s Hartford, Conn., plant reports the situation "considerably brighter." The company added 60 to its research and development staff this year, expects to add another 150 without difficulty next year. Royal was one of the few companies that reported receiving applications from more electrical engineers than it needs. On the other hand, Royal reports some difficulty in getting senior project engineers "with 15 years' experience who can command salaries over $10,000."

Pratt & Whitney Aircraft Div. of United Aircraft agrees that the shortage is easing. The company hired 185 new graduates. To get them, recruiters visited 112 college campuses, found competition for prime men tough, but managed to fill their quota.

The research department of United Aircraft reports it got all the men it wanted for the first time in two or three years. The company picked up 50 aeronautical and mechanical engineers and physicists at starting pay ranging from $400 to $500 per month.

In Los Angeles, there is widespread talk that defense budget changes have put a lot of engineers out of work. But many companies that are heavily involved in research and development work report no layoffs or cancellations. Some companies report that engineers are drifting into the area from the East "because work is easing off in some eastern and midwestern companies." And most companies say that a bumper crop of 1957 engineers, plus the lure of California living, has put new college graduates in plentiful supply. One small company, Electronics Engineering Co., Santa Ana, reports that engineers are walking in the door looking for work—"something that never happened to us before."

California opinion to the contrary, there is little evidence of any actual surplus of engineers in the eastern or midwestern areas. However, companies in Pittsburgh confirm that there is a less frantic atmosphere than there was last year. And in Philadelphia, personnel agencies report an easing in demand for engineers required for new plant con-

struction and say metallurgists are harder to place.

In Baltimore, Bendix Aviation reports that this year was easier than last; they hired 80 new graduates from 50 colleges, paying a top salary of $475 per month. But Bendix has had some difficulty in locating experienced field engineers to send out on 18-month to two-year tours.

In the Southwest, the engineering shortage still exists but the same qualification of "gradual easing" is cited. The Texas Employment Commission says, "We are still getting orders for all kinds of engineers, but they are a little easier to fill." However, Humble Oil reports, "Just as much or more difficulty this year as last in getting engineers. We didn't get all we wanted this year, so next year we are going to carry on more extensive recruiting." Humble believes a real shortage still exists.

On the other hand, Shell Oil said it got all the mechanical, electrical, and chemical engineers it needed and could have hired more.

While the general shortage may have eased somewhat, the starting salaries paid engineers have continued to rise. The consensus puts the rise at about $50 over last year. Bell Telephone Laboratories, for example, increased its minimum starting salary from $400 to $450 per month.

One complaint heard throughout industry is that large companies bidding for contracts are "stockpiling" engineer talent. But there is little proof that such a practice is widespread. Rather, the trend seems to be toward better utilization of talent by hiring and training technicians to work with qualified engineers and ease their bottle-washing and clerical tasks.

For the immediate future at least, it looks as if the panic is over. But companies must continue to pay engineers well and put them to work at genuine engineering jobs if another shortage is to be avoided.

■ BUSINESS WEEK,
July 6, 1957,
p. 56:2.

Executive Development by Delegation

THE WAY in which you select subordinates to handle the jobs you want to delegate can determine whether you are simply getting the jobs off your desk or whether you are helping the people under you to develop their executive potential. By delegating to the unproven subordinate rather than the most obviously qualified one you may be taking some risk, but you will be building a team in depth. Here are four tips on making the most effective choices:

1. *Choose the man with unused abilities.* Bosses often to tend to judge their people by the efforts they put into their routine jobs—even though such jobs contain no real challenge. Yet many firms have executives, particularly at the lower and

middle levels, with talents greater than their jobs require. Dr. John W. Riegel of the University of Michigan's Bureau of Industrial Relations asked top executives in three firms to estimate how many of their management people were handling assignments that required their full potential. In one company the top men agreed that only half the management group had such jobs. In another, it was only a third.

2. *Delegate to a wide range of people, not just a selected few.* Every company has all sorts of relatively minor problems that need solving—problems regarding smoking regulations, use of work clothing, office layout refinements, holiday shift schedules, salvage, and so on. Such problems offer an effective means of testing a man's ability to handle responsibility—and of building his confidence.

Recently, for example, a machine plant received an urgent government order that required quick conversion of a large section of the plant. The method specialists were tied up on another urgent assignment, so management delegated the conversion assignment to first-line supervisors and some of the workers. Conversion proceeded so smoothly that some of the men were promoted, and management has since followed an official policy of assigning responsibility to untried talent at the lower levels.

3. *Choose the not-so-obviously qualified individual.* Your natural inclination may be to delegate to the most handy employee, the employee trained to do the job, or the one who has handled it before. This may be the easiest course, but it is often not the wisest in the long run, for these reasons:

- It overloads the willing workhorse.
- It may generate jealousy and opposition to the "favorites."
- It may create one or more overconfident "crown princes."
- It won't develop the team in depth.

It may be more time-consuming to delegate to the unlikelier man, since it requires more time to explain the job to him and he will probably work more slowly. But the benefit comes as he masters the new job. Actual cases indicate that the team's over-all productivity generally goes up when the dark horses are given a chance to prove themselves.

4. *Choose the man with a weakness.* You may help a man overcome a weakness with heart-to-heart talks, with lectures, even with threats. But you can do an infinitely better job by *delegating* to his weakness.

If you are giving a man a job to help him develop a new skill, tell him so tactfully. An engineer whose reports were impossibly overtechnical was told of his problem and was given the job of writing some promotion folders and customer instruction sheets. Working with a skilled editor, he soon learned how to express himself in nontechnical terms.

If your purpose is to help a subordinate overcome a personality weakness, don't tell him so. Clinical psychologists agree that it is useless, even hazardous, to tell a person of his personality flaws and urge him to overcome them. Ideally, he should discover his own weaknesses and

generate his own desire for improvement.

An example of the delegation approach to this problem is the case of the sales engineer who was technically competent but habitually argued with his customers. His sales manager assigned him the job of heading two seminars at a sales meeting, one on "the relative usefulness of praise and criticism in selling technical equipment," the other on "ways to keep from being drawn into an argument by the customer." After preparing his presentations, the sales engineer told his manager that he now realized he had been falling into traps he hadn't recognized before.

Here are a few more examples of how a delegated job can help a man overcome a weakness:

A management trainee who never planned ahead was asked to make some surveys of future opportunities for his company, then present his findings in a written report.

A junior executive who habitually jumped to conclusions was asked to gather all pertinent facts on a certain project, prepare a detailed summary, and present recommendations.

A lone wolf executive, who neither gave nor received cooperation, was asked by the company president to handle a request from a magazine for an article on management coordination—and the penalties of operating without it.

■ *Donald A. Laird.*
MANAGEMENT METHODS,
July, 1957,
p. 52:3.

Putting Suppliers on Your Value Analysis Team

ALTHOUGH THE IDEA of encouraging company suppliers to come up with cost-cutting improvements is not new, fresh ways have been devised to help do the job more thoroughly. Among some of these methods are:

- Having "Supplier Days," on which vendors are invited to the plant for lunch, a tour of operations, and meetings with company management.
- Stimulating vendor creativeness by the use of product displays in the lobby of purchasing conference rooms which show all components spread out.
- "Cross-fertilizing" ideas by having suppliers visit the customer plant and company purchasing agents, engineers and manufacturing personnel visit the vendors.
- Using devices to encourage vendor suggestions, such as suggestion boxes for suppliers, solicitation of ideas on each purchase order, etc.
- Putting on special drives to get top-caliber suppliers interested in doing business with the company.

—*Purchasing* 5/57

Franchising: The Coming Pattern in Distribution?

"How WOULD YOU like to go into business for yourself? The famous X Company offers you independence—and the backing of a great corporation."

This advertisement is not a dishonest come-on. Independence with backing is a neat trick which is being successfully turned throughout the country. For a price (perhaps $10,000) the aspiring independent retailer gets store fixtures, a complete stock of merchandise, a generous amount of expert guidance to save him from beginner's mistakes—and affiliation without subordination.

The franchise system is one of the new marketing techniques transforming the structure of U.S. retail business. The manufacturer turned to the system in order to stabilize the sales and service policies under which his products were retailed. He wanted a sales organization, but without the expense of investing in one. He also wanted first-rate retailers, but knew it was impossible to hire them; able people preferred to go into business for themselves. The franchise, sold to an ambitious man who had the capacity to amass the franchise money, was the solution.

Both the retailer and the supplier benefit from the franchising arrangement. The supplier has lower sales costs and a "captive" market, with the dealer agreeing to take all or most of his stock from him. He can standardize operations and develop a reputation for quality which it is difficult to achieve with ordinary retailers. The central organization can discipline a backsliding dealer and cancel the franchise of anyone who fails to live up to the agreement.

Immediate identification and a quick share of the supplier's good will are the primary benefits of franchise distribution to the dealer. When an ordinary retailer opens up, it takes a long time before he develops a reputation. The franchised dealer has a ready-made name, even if it is not his own.

The retailer also gets the professional help that only a big firm can provide. Accountants, store architects and other experts, who were out of his reach when he was completely independent, now do work for him. The retailer, moreover, has been granted an exclusive territory. If he has joined a successful organization, and if he does his job well, he can expect to prosper.

The central organization often is not content with just launching the dealer. It develops local advertising in cooperation with him. Sales and service employees may be offered training. Meetings and sales clinics are held in order to keep the dealers on their toes.

There are, of course, disadvantages and problems in the franchise system, too. Many dealers complain that they overpay for much of the merchandise they get from their suppliers. They say that the supplier's favored position results in smaller margins and

lower net profits for the dealer. However, franchise holders often do not appreciate the fact that the parent company must finance the many services they receive. The situation can make for unhealthy suspicions and frictions.

Another complaint stems from the right of the central organization to open new outlets. An older dealer may feel that a newly franchised retailer is cutting unfairly into his territory.

But the supplier can also register criticisms of the dealer. The parent firm's reputation depends on that of the retailer, who is his representative in a given area. A dealer can become excessively dependent, demanding services he should perform himself. He may forget that it is his function to put over the sales in his territory. In such cases, it is hard to cut off the dealer, because the supplier is bound much more closely to him than he would be to an ordinary retailer, and a franchise cancellation can result in expensive litigation.

Another hazard for the supplier is that franchising can lead him to add more lines than he would normally carry. This entails increased investments in inventory, warehousing and personnel, and the supplier could find himself overextended in fields where his operation is uneconomic.

However, the over-all franchise picture looks increasingly healthy, and the supplier-dealer relationship is steadily being refined. Independent retailers are feeling more intense competition from the various integrated groups, and many may decide their best defense lies in joining such a group themselves. Independent suppliers will want more control over their retail outlets as they increase their advertising and promotional activities, and the franchise system will give them that control. These factors promise to accelerate the growth of franchise distribution in the future.

■ *Alfred Gross.*
CHALLENGE,
August-September, 1957, p. 67:4.

Taking the Guesswork out of Supervisory Selection

ALTHOUGH more and more attention is being given to the critical need for capable first-line supervisors, most studies of prevailing supervisory selection practices reveal five basic flaws:

1. Technical proficiency of supervisory candidates is usually stressed over leadership qualities and the ability to get along with people. A common practice, but a disastrous one in many cases, is to promote a man to a supervisory position because he is the best worker.

2. Overemphasis on seniority eliminates many candidates with high supervisory potential.

3. There is no reservoir of potential candidates from which to choose and not enough time is taken to make an intelligent selection.

4. Organizational lines are too seldom crossed, because many companies think a supervisor for a given unit must be selected from that unit. This automatically narrows the area of competition and often means that the most capable person available is not the one selected.

5. Personal knowledge of candidates is overemphasized, so that strong candidates may be overlooked because they are not well known. This is usually due to a lack of organized selection procedures.

At General Electric, a carefully planned system of supervisory selection has been established. Because we feel that the average line manager is too busy with operating details to do this important job, supervisory selection has been turned over to members of the personnel department who have been trained to do the job correctly and have sufficient time to handle all the details necessary.

Here are the four basic steps of the General Electric supervisory selection program:

1. *Determining the specifications of the job to be filled.* It is surprising how often supervisors are selected with little regard for the actual job to be performed. One of our basic tools is a simple form on which a manager lists certain basic requirements of a position to be filled, such as the size of the unit to be supervised, the ratio of male employees to female, special training requirements, the amount of paperwork and planning required, the processes to be performed in the department, etc.

2. *Identifying all possible candidates.* If extensive files are built up on potential candidates, it becomes a relatively simple job to examine these files and select the best qualified candidates when job openings occur.

There are several methods of nominating candidates for future supervisory positions. Unit managers may nominate candidates from the unit at large; the supervisor who is now on the job certainly will have candidates in mind; other supervisors in similar positions can be consulted; and finally, candidates can nominate themselves. The result is a complete list including all qualified candidates not only from the unit needing a supervisor but from other units in the same plant area or even plant areas in other locations.

3. *Evaluating the candidates.* Trained evaluators in the personnel department use four sources for gathering data on each candidate's abilities:

- The *personnel records* are examined and significant data summarized on a brief form.
- The *employee's job performance* is checked carefully, through interviews with supervisors under whom he has worked and an examination of personnel files.

This information can shed much light on whether the candidate is an eager, hard worker; whether he is a good organizer; whether he has good safety habits; whether he has mature judgment; how he gets along with people; etc.

- *Psychological tests* are used to further evaluate candidates. However, test results are never used as a substitute for other evaluation techniques—they supplement information gained from other sources. Standardized tests provide reliable data on a person's mechanical abil-

ity, numerical ability, clerical ability, verbal ability, etc. These tests are usually relatively easy to administer and score. Tests that measure interests, attitudes and other less tangible traits are more difficult to appraise, and the evaluator must exercise considerable skill in interpreting the test scores.

- The last step in evaluation, and perhaps the most important, is an *intensive interview* with the candidate. This may take as long as two hours, and is conducted by a trained member of the personnel department. The results are summarized on appropriate check lists.

Upon completion of the evaluation of the candidate, the evaluator records all the data on a convenient profile comparison chart which can be matched against the job specifications of any supervisory position to be filled. Thus it is a relatively easy matter for the evaluator to screen his files and select a small list of candidates who are qualified to fill any position that opens up.

4. *Making the final decision.* The list of qualified candidates is presented to the line manager seeking a supervisor, along with the specifications established for the job. The manager then selects the man he wants. The manager's part in the supervisory selection program is thus narrowed down to two basic steps: (a) supplying the evaluator with sufficient data on the job to be filled so that job specifications can be developed; and (b) selecting the supervisor from the list of acceptable candidates presented by the evaluators.

The information accumulated in the supervisory selection program is additionally useful in future placement, training, supervision and counseling of the candidates evaluated. Those not chosen for the first supervisory opening may fill the bill for a subsequent one, may be found to possess special qualifications for other assignments, or may receive training to remedy weaknesses that show up in their evaluations.

■ *From an address by J. M. Bertotti (Manager, Personnel Practices, General Electric Co.) before the California Personnel Management Association.*

MANKIND are very odd creatures: One half censure what they practice, the other half practice what they censure; the rest always say and do as they ought.

—Benjamin Franklin

Do's and Don'ts for Better Sales Meetings

ALL TOO OFTEN, sales meetings are poorly conceived, sloppily organized, dull—an annual headache that must be suffered through. And if half the sales force doesn't feign a virus attack before the session, they're genuinely sick of their company, their products, and their jobs when the meeting is over.

It's quite possible to avoid this fate, however, and Fred E. Lesner in *Industrial Marketing* lists some do's and don'ts that will help in planning smooth-running, interesting, and informative sales meetings.

Do's

- Plan the meeting down to the last minute.
- Use every trick at your command—lace the meeting with drama, variety, and information—and relate everything to the problems at hand.
- Make it obvious the meeting is run by and for the salesmen—in turn, to benefit sales.
- Sail right into the tough problems. Pick the brains of everybody in the room. Don't leave a point until the men are satisfied.
- Explain why a promotional campaign or sales theme was conceived. If it's good, they'll like it. But you have to sell them.
- Work in coffee breaks, cocktail hours, special breakfasts, time off in the evenings for the men to get away from it all. Keep them posted. Keep them happy.

Don'ts

- Don't insult your salesmen's intelligence by dragging them in for ill-conceived, poorly planned meetings, or "you can do it, boys!" pep rallies.
- Don't belt them over the head with long-winded presentations and canned talks.
- Don't let the brass walk in and out of the room at will, leaving the impression such meetings are just for the common people—but don't let your meeting become a one-sided get-together for management, either.
- Don't give salesmen a lengthy, detailed technical answer when a short one will do the trick.
- Don't accept or use hastily prepared presentations or material (no matter how entertaining) which doesn't carry the point.
- Don't devote the whole meeting to distribution, specific markets or advertising and take your product features for granted.

Equipment Leasing: Some Pros and Cons

RANGING from office machines to automobiles, leased equipment is being used by a growing number of companies today. Here are some of the reasons a company might find it advantageous to lease needed equipment rather than buy it outright:

1. The capital freed by such a lease arrangement can be used for profitable investment. This is the primary advantage of the lease. But freed capital must be kept working. If the company permits its surplus funds to remain in bank deposits, the lease or any other financing method will prove far too expensive.

2. Leasing enables a company to use modern equipment that it could not obtain otherwise. With leasing, there is no danger of being caught with a heavy investment in obsolete equipment when more efficient and modern equipment becomes available.

When a company is in doubt as to the economic advantage of purchasing certain equipment, a short-term lease might be considered. Such leasing can be practicable even at higher cost for these short periods if there is uncertainty as to whether a purchase investment would pay for itself.

3. Leasing permits the use of equipment needed only for a specific purpose for a limited period of time. Equipment for a one-time job or contract, or for a venture containing a substantial element of risk, can be obtained under a lease plan without the company having to worry about whether it can later adapt the equipment to another operation or to a changed situation. The cost of its use can be applied over the known period without the complications created by capitalization of an owned asset and its depreciation at rates that may be unrealistic. Moreover, the accounting for specific applicable costs under certain contracts—particularly government contracts—is sometimes facilitated by the finality of charges applied under a lease.

4. Leasing is highly advantageous where expert servicing is required. An excellent example is a lease covering the use and servicing of tabulating equipment. The complexity of the equipment and the user's dependence on the manufacturer's representative to keep it operating makes the lease arrangement particularly advantageous in such situations.

5. There are several situations in the financial area that lend themselves to a lease arrangement. A lease plan may be desirable when the company does not want to reflect additional investment on its balance sheet, or when it is advantageous to match cost expenditures with the allowable income tax deduction. In some cases, a lease arrangement can enable a company to postpone its tax payments, thus freeing cash needed for working capital. Often, a lease is simpler to arrange and less restrictive than other methods of financing.

Leasing also has certain drawbacks:

1. Leasing frequently exposes the lessee's operations to some supervision by the lessor. Of course, supervision of the use of certain types of equipment is often justified for the protection of the lessor as well as for the assurance of satisfactory performance of the equipment. However, there have been some instances of the lessee's freedom being restricted to such an extent that the usefulness of the equipment has been impaired.

2. A company leasing equipment may run the risk of losing it at the end of the lease and not being able to obtain replacement on a rental basis. To avoid this risk, a company should seek the inclusion of a purchase option or a right of renewal in the lease contract.

3. Some companies feel that ownership, of itself, is desirable—that the capital assets of the company represent a certain stability. On the other hand, the growth of equipment leasing indicates a decline in the importance of ownership as a prestige factor.

■ *Charles M. White, Jr.*
THE CONTROLLER,
July, 1957, p. 332:6.

Gearing Pensions to Purchasing Power

HOW CAN EMPLOYEE PENSIONS be protected against the erosion of inflation? Although any basic solution to this problem depends on over-all economic policies and trends, there are definite steps that can be taken by individual companies to ease pension hardships.

Probably the most common method of offsetting inflationary inroads is reviewing the pension plan periodically and adjusting it to changed conditions. For the employer, this has the advantage of not requiring an advance commitment. However, periodic adjustment has disadvantages for both the employee and employer. The employee may lose out because of the poor financial condition of the employer at the time of the review. And the employer might find himself in a difficult position because he has not been building up additional reserves in anticipation of a need for an increase in pensions due to inflation. Each time an increase in the schedule of pension benefits is made, the employer would, in effect, be making it retroactively. An increase of 10 per cent in the pension might create a past service cost higher than the outlay for current service.

One increasingly popular method of solving this problem is to establish a supplemental plan. Under this arrangement, a basic pension plan provides retirement income according to a definite predetermined schedule. Additional funds are accumulated during an employee's working years under a deferred profit-sharing plan, savings plan, or other similar program.

Many employers believe that a supplementary deferred profit-sharing plan is an excellent method of absorbing the ups and downs of the cost of living. When the primary objective is to provide a hedge against inflation, the funds are often invested in equities in an attempt to increase this hedge.

Another type of supplemental plan frequently used is a voluntary savings plan. The employee is encouraged to save a portion of his earnings each year, and the employer makes a contribution equal to a predetermined percentage of the employee's contributions.

Savings plan funds are invested in a variety of ways. Under some plans only the most conservative securities are purchased, because the employer feels that security of principal is of primary importance when employee's money is involved. Other employers believe that such an investment portfolio will not be an adequate hedge against inflation, so they invest some of the funds in equities.

Another method of protecting pensions from inflation is the "final pay" plan. Under this arrangement, retirement income is based on "final earnings" rather than on average earnings during coverage under the plan. In most cases, "final pay" is defined as the average of the last five or ten years' earnings. The advantage for the employee is that salaries usually rise with the cost of living.

The employer, however, must assume an unknown future liability if he adopts a "final pay" plan. Under an ordinary plan where pensions are based on over-all average earnings, the employer is able to fund fully each year the pension accruing during that year. But under the "final pay" program he may be faced in the future with the problem of setting aside large additional sums for years of service long since past. Advocates of the "final pay" formula claim that this risk is exaggerated. As wages increase, they say, deposits to the pension plan can be adjusted accordingly and the cost of increased benefits can be spread over the remaining working lifetime of the employees.

For the employee, one of the best answers to the inflation threat against pensions is a pension based on a cost-of-living index. Few plans have included such a provision, because it involves the possibility of a severe financial drain on the employer unless sound safeguards are established. Unlike a wage "escalator" clause, the pension provision means a commitment for 40 or 50 years in to the future. Nevertheless, plans of this type have been established by several companies and are being seriously considered by others.

Such a plan may be based on a well-known price index, such as the Consumer Price Index. In order to smooth out the sharp fluctuations, a moving average of prices over a period of a year or two years can be used. It is also sensible to specify that pension adjustments will be made only for the amount of change in prices (up or down) in excess of a minimum such as 5 or 10 per cent.

Some employers invest a portion of their pension funds in common stocks, as there appears to be a correlation between stock prices and price indices. An effective method of financing a plan of this kind on a

yearly basis is to establish a basic plan with constant benefits, such as a definite per cent of the average salary. Then, each year that the cost-of-living index advances, the employer can purchase an appropriate amount of additional deferred income. Conversely, he would reduce the additional deferred income when the index falls.

The effectiveness of variable annuity plans against pension erosion is a subject of current controversy. Few such plans are in effect. Pension planning experts are in almost unanimous agreement that if a variable annuity pension program is used, not all the reserves should be in equities. An increasing number of plans are using the split funding arrangement under which fixed dollars are provided by an insurance contract and equities are held in a trust fund.

■ *Morgan H. Alvord.*
THE JOURNAL OF COMMERCE,
June 14, 1957, p. 7:3.

The Growing Shortage of World Capital

TIGHT MONEY, which economists define as a shortage of available capital to meet the demands of an expanding economy, is not a peculiar phenomenon of the great U.S. boom. As gauged by interest rates, the U.S. actually has easier money than 23 other major nations. The entire free world is caught in the grip of an unparalleled capital shortage that threatens to crimp the expansion plans of businessmen from Bonn to Bombay.

While U.S. firms with high credit ratings can still make short-term loans at 4½ per cent, British businessmen must pay 5½ per cent. In Germany, Japan, France, Brazil, and Greece, interest rates run anywhere from 7 per cent to 12 per cent. For smaller companies, the effective rate often is much higher, reaching 25 per cent or more annually. Even at such rates, demand so far outstrips supply that companies are hard-pressed for expansion capital and are turning increasingly to profits to get the funds they need. In Britain, West Germany, and Belgium, some businessmen are plowing up to 60 per cent of all profits back into their firms.

Despite the uncomfortable short-term effects on industrial expansion, few economists are seriously worried that the present capital shortage will harm the free world's economy over the long run. Most consider it an inevitable and, to some extent, desirable byproduct of world-wide prosperity. In many nations, the shortage of money acts as a brake on hell-for-leather expansion programs that threaten to burst their economic seams. Often, the general effect is to create a natural rationing system based on the laws of supply and demand, which tends to channel capital away from marginal projects into more important—and often more profitable—enterprises.

—*Time* 7/29/57

Training Technicians—A Do-It-Yourself Plan

WITH ONLY LIMITED GROWTH of the "automatic factory" to date, the need for skilled workers and technicians is greater than ever before. Some companies are already gearing their employee training for the electronics of tomorrow. One forward-looking step is the extension of apprenticeship programs to include studies in college-level engineering.

Young men at General Electric Co. (Bloomfield, N. J.) may now obtain two full years' credits toward a college education in engineering as a part of their apprenticeship training. At the apprentice graduate's option, he may then continue either evenings or days to obtain his degree.

Under the plan, G.E. foots all the educational bills, including tuition, books, and fees during the period of apprenticeship. Apprentices attend the nearby Newark College of Engineering four nights a week for four years. On satisfactory completion of this course, the college awards its associate's certificate.

If the apprentice desires, he may then pursue his BS degree by continuing the evening program for four more years. Or, if he prefers, he may attend the college full time for two years, during which he may be granted leave by the company. In either case, G.E.'s Educational Assistance Plan is available to him.

The existing apprenticeship program will also be continued. Under that program, apprentices attend the Newark College of Engineering in the Special Courses Division, and, on completion of their studies, receive a graduation certificate from the General Electric Mechanical Technology Course. No college credits are granted. Requirements are only two or three nights a week for three years.

Shop work under the two plans is exactly the same, but the college credit plan requires extra hours. The certificate program of shop work is for a total of 6,800 hours; the college-level program, which is approximately six months longer, may require up to 8,000 hours of shop work. All apprentices work in the plant the usual schedule of 40 hours.

Admission to either program is highly selective. In addition to being passed upon by several members of management, the prospective apprentice must perform well on a battery of company aptitude tests and meet the scholastic requirements of the college.

"While we are in this to train craftsmen," says a G.E. spokesman, "we will be delighted if our apprentices end up as full-fledged engineers or supervisors. The biggest shortage in industry today is of specialists with shop as well as academic training."

—*Employee Relations Bulletin* 5/15/57

THE AVERAGE FAMILY SHARE of gross U.S. public and private debt is more than $16,000, according to the U.S. Chamber of Commerce. The Chamber places the aggregate debt figure at almost $1 trillion. Aggregate debt has almost doubled since 1945 and in 1955 alone it increased $60 billion; per capita share is now more than $4,650.

—*Commerce* 4/57

Boxtops by the Billions

JUST ABOUT ANYTHING anyone may need, including cash, can be obtained by sending in a label or a boxtop these days. Responsible for this is the premium industry, which offers all sorts of merchandise as an inducement to buy all sorts of other merchandise.

Here are some examples of how it works:

¶ Buy champagne and get an attractive ice-packed container, delivered at a bargain price.

¶ Buy a cosmetics item and get an elegant sewing kit that doubles as an evening purse for less than it would cost over a retail counter.

¶ Buy a bag of caramels and get a foreign coin.

¶ Buy six packages of a soft-drink mix, send in the front panels and get back 50 cents, enough to pay for the milk that goes with the drink powder.

¶ Send in toothpaste carton flaps and get an art reproduction.

These devices have moved mountains of merchandise and, so doing, have built a tremendous industry in premiums.

Gordon C. Bowen, chairman of the Premium Advertising Association of America, predicted recently that this would be a record year for the industry, with dollar volume for premiums and sales incentives close to $2,000,000,000.

Trading stamps alone will account for more than a third of this figure, according to Bowen. Many supermarkets offering stamps are adding premium promotions in the hard-slugging battle for customers, so that the grocery outlets are, without doubt, the biggest distributors of premium items.

Bowen notes that the success of premiums in building grocery sales has created widespread interest in the technique in other fields, with the result that companies ranging from produce packers to oil companies are trying premium promotions for the first time.

Another trend, he reports, is the growing use of higher-priced items and an emphasis on quality and value.

A study conducted for the Premium Advertising Association by Dr. Arnold Corbin, Associate Professor of Marketing at the New York University School of Business Administration, indicated that activity last year set a record, with almost one in every seven companies using premiums spending more than $100,000 a year on them.

These are distributed without further charge, on proof of purchase by means of a label or a boxtop, or are charged for at cost or a slight profit. But one current promotion offers a premium on which the merchandiser expects to make more actual profit than he looks for on his own product.

For trade purposes, the most popular offer, according to the survey, is the incentive type, in which salesmen strive to build up their volume to

earn a trip, a card table, a toaster, an armchair or whatever the sales manager might decide on.

The retailer makes use chiefly of the straight giveaway, a premium included with the purchase of merchandise.

The manufacturer's advertising makes considerable use of the premium offer as a trade builder. The advertising carefully includes a cut-off date, for many advertisers recall the incident of the newspaper that offered a grandfather clock as a subscription inducement before World War I. More than a generation later a perspicacious gentleman came across one of the old papers and sent in a request for a clock. The newspaper honored the request, but with considerable difficulty.

Sunkist goes a step further than most merchandisers by persuading retailers to display a special design of its premium stainless steel tableware with its fruit. The big inducement is that customers exchange their proof of purchase and the money for the bargain-priced silver on the spot without accumulating coupons, stamps or other bits of paper and going to the trouble of mailing.

■ *William M. Freeman.*
THE NEW YORK TIMES,
August 4, 1957.

Business Schools Head for New Horizons

IS A NEW APPROACH needed to business school education? The deans of many leading business schools throughout the country believe it is. Dean Richard Donham of Northwestern's School of Business says flatly: "The traditional approach to business education described in most catalogs today is outdated."

In addition to the key abilities to make decisions and to work with people toward a common goal, most deans feel that tomorrow's graduate should emerge from business school with these qualifications:

Imagination, insight into human nature, familiarity with electronic data processing equipment, skill in lucid communication, and the ability to move from one department to another and attack and solve a variety of problems.

It is the job of business schools to shape the curricula which will help turn out men with these qualifications. Precisely what this curricula should include is currently being debated. Meanwhile, says the American Association of Collegiate Schools of Business, there are definite steps business can take to cooperate with the schools in increasing the effectiveness of business education, including:

1. Help increase the supply of teachers by setting up yearly fellowships for prospective teachers of business administration working for doctorate degrees.

2. Provide continuing grants to assist development of educational

programs in business administration and meet the need for adequate salaries.

3. Cooperate with schools in developing and subsidizing research projects of both academic and managerial interest.

4. Serve on advisory committees to collegiate schools of business administration.

5. Permit young and promising executives to teach part time.

6. Provide teaching aids in the form of cases and special problems, as well as equipment for instruction purposes.

7. Make more use of university resources in private research projects and training programs.

8. Provide opportunities for summer employment of faculty members in business administration and social sciences.

9. Set up more summer visiting programs so that faculty members can learn firsthand about practical problems in business organization and management.

In addition, business can help eliminate a complaint that is commonly voiced by educators today:

"Company presidents tell us they want broadly educated, well-rounded men, not specialists. Yet their recruiters say they need accountants and electrical engineers."

A number of educators as well as businessmen feel that teaching the how-to-do-it course in school is futile because of rapidly changing technology. Educators are thinking and planning ahead in agreement that colleges and universities should teach fundamental disciplines, rather than specific job techniques.

Dean Stanley F. Teele of the Harvard Graduate School of Business Administration notes four major trends that will affect the business executive of the next decade, and thus influence future business education programs:

1. The fast rate at which developments in the physical and social sciences are being applied to business administration. These developments include automation, electronic data processing, operations research, and motivation research.

2. Greater emphasis on advance planning. Increased costs of plant and equipment, growth of business enterprises, changes in population, guaranteed annual wage plans, and long-range capital budgeting have stimulated this trend.

3. More attention to human relations. Psychologists have pointed up the importance of work satisfactions and human needs for feeling useful and participating in group activities.

4. Growing acceptance by executives of responsibilities outside the business enterprise. Managers must not only be interested in major social and political issues, but play a significant part in their resolution.

The ideal preparation for a business career, says Dean Teele, should include undergraduate courses which stress skills of writing, speaking, and mathematics and provide an understanding of the humanities through history, economics, political science, and the natural sciences. These courses should be followed by graduate work to develop the ability to make wise decisions, work effectively with people, and make use of specialized knowledge.

"The university will have to help students understand the role of the business enterprise and the businessman in our society," says Dean Teele. "And business schools will have to do much more to help students develop for themselves a set of ultimate social values appropriate for them in the years ahead."

Thomas H. Carroll, a former business school dean and now vice president of the Ford Foundation, recently proposed that more business schools consider adopting the five-year approach to business education now used by some schools. Basically, this is three years of liberal arts courses, a fourth year of business courses, and a fifth year of specialized training plus broad courses such as organization and communications theory, human relations, and business policy.

"The business education program will be broadened without losing specialization," predicts Dean Paul Martin Green of the University of Illinois' College of Commerce and Business Administration. "There will be many new courses in human relations as well as new classes in data processing."

Dean Green foresees the graduate of the future as a man "able to go into any industry and do several jobs, but be more expert in one."

■ NATION'S BUSINESS,
July, 1957,
p. 34:4.

Making the Most of Your Employee Recreation Program

WITH U.S. COMPANIES spending over $1 billion a year on employee recreation programs, smart management is using effective administration to bring full dividends in the form of improved employee morale. One company, Minnesota Mining and Manufacturing Co., which spent $32,000 on recreation last year at its main plant, follows these policies in running its programs:

1. Membership is voluntary. Without any pressure, the 3M Club has enrolled 94 per cent of the company's St. Paul work force.
2. Administrative help is offered but there is no dictation. The company has two full-time recreation directors, but they get their assignments from the Club committee, not management.
3. Any reasonable activity is welcomed. If any group of employees wants to get together for a wholesome purpose, the company helps it get organized and then stands aside.
4. Employees share the cost. Recreation programs have more value and meaning for employees when they put some of their own money into the pot. At 3M each Club member pays $1 a year dues. Another $25,000 comes from vending machine profits and the company matches the total with $32,000.
5. Maximum participation is a prime objective. The more variety in the program, the more employees it will attract.

—Factory Management and Maintenance 6/57

The Rosy Future of Computers

AN ELECTRIC HUM, a clackety-clack of robot typewriters, a few red lights blinking—and Sears, Roebuck workers pick up their pay checks every week.

The hum-clack-blink routine is a giant electronic computer grinding out a massive payroll every week that Sears couldn't complete in less than two weeks back in the old pre-computer days, even using a small army of clerks. It goes without saying that the more frequently paid Sears employees greatly admire the work of the electronic brain they seldom see.

The whole computer world, in fact, is basking in general satisfaction almost to the point of smugness. Computer users, including retail stores, steel mills, drug manufacturers and insurance companies, are saving time and money by feeding an increasing variety of chores to the machines. And computer makers can hardly keep up with the demand for their brainy products; the value of computers sold or rented may hit $350 million this year, nearly four times last year's $94 million figure and dwarfing the 1955 total of $47 million.

All of this is not to say the computer world is entirely blissful. For one thing, there's the matter of language. Smart as computers are, they respond only to such languages as alpha-numeric. This is a language designed especially for computers in which information and directions are reduced to a mixture of alphabetical and numerical symbols. It's no small task to find persons who can analyze a business problem and then translate it into something that makes sense to the computer.

And much of the time, computers in commercial use just stand around doing nothing, or working well below their productive capacity. This, needless to say, is expensive, considering that one of the units may cost $1 million or rent for $50,000 a month. Inland Steel Co. bought a computer in 1954, but still isn't utilizing it fully. Says Inland comptroller O. R. Egan, "We're not completely programmed yet."

Despite such problems and occasional miscalculations, computer manufacturers generally whip on their rose-colored glasses when they look at the future. This is partly due to a miscalculation of their own about the present computer market.

International Business Machines Corp. notes that it has installed a "considerably greater" number of computers than it originally expected. Though chary with actual figures, an IBM official admits that its market analysts five years ago "underestimated the real market."

Future demand, say computer makers, will be for big brains. While many a computer now in use fills an entire room, truly large-scale installations are in the minority, totaling perhaps 200 units. But says A. N. Seares, Remington Rand's vice presi-

dent for management services, "the estimated market potential in the U.S. and Canada for large-scale computers is more than 1,200 systems by 1960 and 1,500 more by 1965." He's counting only computers for industry, not those bought by the government or used primarily for scientific research.

To meet present and future demand, computer manufacturers are enlarging their plant capacities or building new factories. ElectroData Corp., which last year became a division of Burroughs Corp., in 1955 was doing business in a Pasadena, Calif., plant with 40,000 square feet of floor space. This already has been expanded to 260,000 square feet and the firm has just bought 160 acres of land for still more expansion. ElectroData now is producing at the record rate of one Datatron computer every five days but its order backlog is so big that average delivery time is still ten months.

IBM and Remington Rand, the other two of the "big three" computer makers, decline to be so specific, but they too are expanding. Remington is beginning computer production in a new plant at Utica, N. Y.

A number of other companies recently have entered or shortly will jump into the computer market. These include Minneapolis-Honeywell Regulator Co., Radio Corp. of America, National Cash Register Co., Philco Corp., and Marchant Calculators, Inc. General Electric reportedly is eyeing the computer field, too.

Obviously, not every company can use a giant computer, so a number of manufacturers are considering smaller units that would help broaden the market. The only very small computer now available, a Burroughs machine, sells for around $40,000 or rents for about $1,000 a month. Industry sources say IBM plans to unveil a small model in the near future, but the company won't reveal any details.

■ *Louis M. Kohlmeier.*
THE WALL STREET JOURNAL,
August 15, 1957, p. 1:2.

Does Retirement Counseling Really Help?

INDUSTRY HAS APPARENTLY accepted the proposition that it should help employees adjust to retirement. Since management assumes responsibility for the employee's security and well-being during the time he works, its concern for his psychological adjustment to nonwork is readily understandable.

But is this concern fruitful or necessary? The question needs to be raised. Unless retirement counseling really is needed and can be effective, management would be foolish to embark upon new programs or extend existing ones. A clear understanding of the true picture will be a useful guide to what is to be done.

In 1948, there were only a handful of preretirement programs. By 1954, over 65 per cent of the companies in a nationwide survey had some such counseling, with 35 per cent assigning a company representative to call on retired people. Plainly, retirement adjustment programs are increasing in number and expanding in scope. Though this growth has not been accompanied by a corresponding clarification of objectives, several general purposes can be discerned.

To start with, companies do have a sense of loyalty and obligation to long-service employees. In addition, some companies fear that if business does not take the lead in retirement adjustment programs, government will. Another fear is that productivity may slump. The employee who is on the edge of retirement may produce less because of his anxiety or his bitterness toward the firm.

Another major aim may be to encourage retirement. Whatever the effect may be on the future adjustment of the retired employee, there is considerable evidence that counseling *does* serve to retire superannuated personnel. Most companies testify that interviews before the retirement date soften the objections which most people seem to have to leaving a firm.

No matter how important the other purposes, none is mentioned as frequently as improving public relations. It is assumed, rightly or not, that when large numbers of people are retired, their problems and discontents receive considerable informal publicity, and that the company is held responsible for the degree of adjustment. On the other hand, well adjusted and happily retired employees are credited with supplying a reservoir of good will in the community.

This view that retirement adjustment programs result in happier, better adjusted annuitants and thus in better public relations deserves careful analysis. It is based upon these three assumptions:

1. In many cases, retirement adjustment is difficult.

2. The ill-adjusted make the company responsible for their difficulties.

3. Retirement adjustment programs actually promote adjustment.

On the first question, there is some evidence that retirement adjustment may be a serious problem for only a small portion of employees. In 1952, Special Surveys of Cleveland interviewed 483 persons who had been retired from one to five years. Only 17 per cent fell into the "least contented" category—those who preferred working to being retired, found it hard to get used to being off the job, and had been happier while still drawing their paychecks.

On the other hand, 36 per cent, or over twice as many, were clearly happy. The remaining 47 per cent did not express themselves definitely or consistently one way or another.

These rather surprising findings bore little relation to extensive adjustment programs. Only 20 per cent said their company gave them advice or help in this respect. Indeed, only 25 per cent thought the firm *should* give them advice or help, and over half of these had "bigger pensions" in mind.

What about the second assump-

tion, which is the most frequent justification of retirement programs? Do the ill-adjusted, unhappy annuitants implicate the company in their discontent? Is the company made responsible? Apparently not. Two studies that bear directly on this topic suggest that company loyalty is very high with long-service employees, regardless of the degree of contentment.

Now what about the assumption that retirement adjustment programs can help the minority who do find adjustment difficult? Perhaps extensive programs *might* help some of the poorly adjusted. Unfortunately, no studies have been made of those receiving extensive services, and few programs have been in existence long enough to have served a large group of people.

In general, then, few programs seem capable of helping the individual who will wish he were still working, who will not get used to retirement, and who will not be as happy as before. What's wrong with the programs?

Few criticisms of these programs have appeared, at least in print. Occasionally, an executive warns that all the literature and talk about "retirement shock" will frighten the employee and raise all sorts of fears. Another criticism is that in getting the employee to think about retirement five or ten years before the actual date, we are impressing the individual with the idea that he is going to be old at a specific age.

The most extensive programs offer about five counseling sessions in the last five years of employment, a ceremony on the day of departure, and a yearly follow-up either by a home visit or by a contact when the employee comes to company picnics or other gatherings. This is not much.

Furthermore, the person who does the counseling will be unusual if he has had as much as a week of special training. The qualifications, by general consensus, seem to be "common sense and discretion, together with personal acceptability to the employees," as one study puts it. The implication is that the job is easy—any decent fellow can handle it.

This easy approach is supported by heavy dependence on shibboleths: careful plans should be made, new interests should be cultivated, hobbies should be taken up. One manual on counseling for retirement—apparently more sophisticated than most—cautions: "There is no magic formula which can make an unhappy and discontented person happy." But the field is full of formulas!

Thus, it appears difficult to do an effective job in helping those who are going to have trouble with retirement. One executive feels that the problem is for industry to develop mature individuals all along, through proper placement services and through perceptive and skilled personnel men who can win the confidence of employees. Good personnel men can help those with difficulties early or refer them to the proper community agency for help. He summed up his point: "Those who live successfully retire successfully."

■ *Charles Perrow,*
HARVARD BUSINESS REVIEW,
July-August, 1957, p. 109:7.

The New Boom in Private Brands

A NEW BOOM in private brands is under way in chains and large and small stores throughout the country, as a rising number of products are appearing under the merchants' own brand name.

Reasons for the rise in private brands are complex. In some cases, an excess of production is the cause. In order to sell off a heavy inventory of radio sets or to keep a plant in production, for example, a manufacturer may offer large lots on condition that they carry the brand name of the retailer. If the retailer sells them at unusually low prices, that does not reflect on the manufacturer's wholesale and retail prices.

Constitutional knockouts of fair-trade laws is another reason for the increase in private brands. A maker may find it difficult to maintain a price for his radio set in one state when fair-trade laws in an adjoining state are declared invalid. So he offers the set at the fixed price under the regular name in the first state and at an uncontrolled price, under any name the dealer wants, in the next state.

The rise of discount houses has also swelled the number of private brands. A discount house may slash the price on a famous brand, but another retailer may think it unwise to cut the price. So he finds a manufacturer who will supply a private brand, on which he can set any price he chooses. In another situation, a merchant may be troubled because customers shop his store for values, prices, and model numbers, then buy at discount houses. But exact comparisons are impossible when a private brand name is involved.

There are a number of reasons why merchants like private brands. They have control over the price; they can change it at will without wondering how the maker will feel. They can use it as a bargaining tool: if the maker of a national brand won't cut his price, the retailers can push their own brands instead. If they make their private brand-names valuable, the equity belongs to the retailer, not the manufacturer.

On the other hand, there are disadvantages. On private brands, merchants must provide their own service and fulfill their own guarantees. And most important of all, private brands gain none of the advantages of national advertising by the makers of famous brands.

—Elmer Roessner in *Business Today* (McClure Newspaper Syndicate) 5/27/57

AMA SPECIAL MANUFACTURING CONFERENCE

The AMA Special Manufacturing Conference on Quality Control in Action will be held Monday through Wednesday, November 18-20 inclusive, at the Statler Hotel, New York. This conference has been scheduled to replace the conference on Automation, which has been canceled.

Merit Rating: A Look at Company Practices

THE PRIMARY OBJECTIVES of most merit-rating programs are to improve job performance, determine promotions, and determine wage increases, according to a survey of 140 companies of all sizes recently completed by the Bureau of National Affairs. Over two-fifths of the responding companies have formal merit-rating plans covering at least some rank-and-file employees, and informal merit rating is carried on by many of the remaining companies.

Improving job performance is cited as a primary aim of merit rating by 50 per cent of the larger companies (over 1,000 employees) with formal programs and 57 per cent of smaller companies. Determining wage increases is specified by 29 per cent of larger companies and 35 per cent of smaller, and determining promotions by 32 per cent of larger companies but only 9 per cent of smaller. Other companies mentioned letting the employee know how he's doing, guiding supervisors in systematic appraisal, and appraising management potential. Secondary objectives include better communications, facilitation of transfers, and determining fitness for continued employment.

A number of the responding companies with merit-rating programs exclude certain groups of rank-and-file employees from the programs, such as employees represented by unions, employees at the top of their classifications, employees covered by automatic wage or salary structures, and incentive workers. Half of larger and 65 per cent of smaller companies apply merit rating to both office and factory workers. Merit rating covers office workers alone in 41 per cent of larger companies and 17 per cent of smaller, and factory workers alone in 9 per cent of larger companies and 17 per cent of smaller.

In most companies, ratings are given annually or semi-annually. Although some smaller companies rate their employees quarterly or even monthly, this practice is criticized by one of the responding personnel executives: "One of the disadvantages of reviewing people so often is that if the employee is making the top rate in his classification his supervisor is not going to make a recommendation for an increase in any event. Although the supervisor will review the employee's work because it's policy, it will probably be a hasty review that will create resentment on the part of the employee."

While merit-rating forms show a great variety, a number of standard factors appear on almost all of them, such as quality of work, quantity of work, job knowledge, adaptability, dependability, initiative, cooperation, safety, attendance, and punctuality. Other factors sometimes included for purposes of rating supervisory potential are leadership, judgment, organizational ability, and cost consciousness. In some companies, the factors are given equal weight, but in many companies certain factors count more than others. In general, quality of work, quantity of work, and job

knowledge are the most heavily weighted factors.

A little more than half the responding companies use rating scales in judging their employees. About a fourth use discussion-type reports, and almost as many use a combination of the two methods. Only a few companies use ranking (comparing employees on the basis of selected factors or over-all performance) or check lists (a series of questions designed to elicit a total picture of the employee being rated).

When it comes to doing the merit-rating job, the employee's immediate supervisor usually gets the nod. This is true in two out of three larger firms and seven out of eight smaller ones. In an appreciable number of larger firms, employees are appraised by teams comprising two or three levels of supervision, such as the foreman, superintendent, and plant manager; the department head, controller, and personnel manager; or immediate supervisor plus department head.

After the ratings are made, they are reviewed in all but one of the larger and two of the smaller firms which conduct formal merit-rating programs. In about two thirds of the companies, the personnel-industrial relations department reviews the ratings, assisted usually by a member of line supervision. In the remaining third, rating reviews are conducted by a single manager, usually the department head or plant superintendent.

In attacking the problem of getting consistent ratings, the responding companies use a variety of methods. These include: comparing current and previous ratings; checking ratings against records of attendance, production, and so on; making a statistical review of ratings within each department; and a review by the plant manager and the personnel director.

Merit-rating results are discussed with employees in all but one larger and one smaller firm. A number of respondents, however, specify that such follow-ups are made only under certain conditions — for example, when the rating is adverse or when it appears that a discussion will help. In almost all firms, the follow-up interview is conducted by the employee's immediate supervisor. In a few of the larger firms, it is conducted by a three-man committee such as the immediate supervisor, controller, and personnel manager.

In the majority of responding companies, union contracts do not contain any reference to merit rating. Only in contracts of some 30 per cent of larger and 45 per cent of smaller companies is merit rating mentioned, with references varying from brief mention to explicitly spelled-out procedures. Merit ratings of unionized employees can be protested through grievance procedure in about one half of larger firms and two thirds of smaller ones with formal merit-rating programs. However, protests of ratings can be taken to arbitration in only about half of these firms.

Although the majority of responding companies do not have formal merit-rating programs, personnel executives in some three fifths of these firms expressed their belief that such programs are desirable. Among the remainder, a sizable number of executives maintained that formal merit rating is unworkable or undesirable

because employees are unionized. The industrial relations director of a glass company said, "We are not convinced that such rating can be successfully administered in the face of the comparatively rigid seniority system contained in our labor contracts. These seniority provisions would probably defeat the purpose of a rating system and lead to further demands by the union for 'protection' against 'arbitrary judgments' of the company."

Management in the Lab

WITH THE DEVELOPMENT of new products and new technology looming larger and larger as a decisive factor in business success, sound management of a company's research laboratory is becoming an increasingly vital challenge. There are two main areas with which research management must be concerned: first, the laboratory's relationship to the company as a whole, and second, its internal administration.

In the first area, research management should never forget that the real purpose of industrial research and development activities is to provide the solutions to technical problems that the company is encountering or will encounter in the future. Too often, a company waits for its research group to develop new products or processes and then tries to figure out ways of using them.

A much sounder approach is to make sure that the research organization knows just what is needed in the way of research results. It must be familiar with what the company is trying to do today and its plans for the future. These present objectives and future plans must be analyzed in terms of the technical problems they will create, and the means needed to deal with these problems.

Research management must also achieve a proper balance between work on short-range problems and work on long-range problems. If a research organization concentrates its efforts on problems facing the company today, it will not have the answers that will be needed to solve the problems of tomorrow. On the other hand, if the research organization concentrates on solving future problems, the company may not survive to make use of the results.

Research management should also make every effort to assure that its achievements are put to productive use. Research results collecting dust on a shelf indicate that the research manager is not putting enough effort into the selling part of his job. Technology has to be marketed with just as much vigor as new products coming from the manufacturing department.

Many research organizations fail to sell their achievements because they assume that once a good research result is available, the company will automatically make use of it. This is just not so. There are a lot of people in most organizations who do not like to do things differ-

ently. There may be others who do not understand the technical achievements and how they can be applied. Even those who do understand and want to use new technology invariably need a great deal of help in doing anything about it.

Selling technological results depends on arousing interest at all levels of the company in what is going on. This means supplying the operating and marketing departments with full information on the kind of programs being carried on, what progress is being made, and how the results can be used.

When possible, new technical developments should be turned over to other divisions in the form of packaged projects. Manufacturing and marketing people generally have little time to play around with do-it-yourself kits, so the proposals submitted to them by the research organization should be as ready for immediate use as possible. This includes complete market surveys, engineering where necessary, economic studies, and descriptions of just how the results can be applied. The guiding principle for the research organization should be that no research is complete or successful until a plant is operating or a product is being marketed satisfactorily.

In addition to coordinating effectively with other departments in the company, the research organization must carry on its internal operations in an efficient manner. The old theory that the quality of research is all that counts and that the unit cost of a good idea is immeasurable cannot be supported in this era of heavy research expenditure. It is perfectly reasonable for a company to expect that its research division will not only provide top-quality results, but will at the same time strive to keep its unit costs down just as the other divisions are expected to do.

Of course, it would be self-defeating to do anything that would stifle the creative efforts of the research group. However, two-thirds of the total personnel in an average research organization are nontechnical: stenographers, mechanics, operators, laboratory assistants, clerks, etc. Two-thirds of those classed as technical personnel are usually engaged in development and engineering work, which requires a great deal of planning and organization. This leaves only about 10 per cent of the total personnel who are actually engaged in truly creative research, so that it is entirely possible to apply sound business management principles to at least 90 per cent of the organization, even if you wish to deal with the creative scientists on a different basis.

Each of the three groups in the research division should have its own specifically tailored program for reducing costs and improving effectiveness. The nontechnical personnel should have a program similar to those used in other parts of the company.

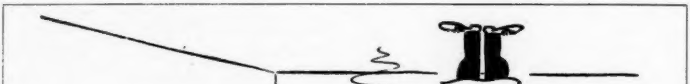
Development and engineering personnel often find themselves in the position of the cobbler's children who have no shoes of their own. This is the group that develops better techniques for other divisions and constantly encourages the use of automation throughout the company's plants. Research on their own prob-

lems will show that much can be done toward applying automation to laboratory and pilot plant equipment, developing better analytical techniques, developing mathematical techniques to utilize electronic computers in the planning of research programs, better analysis of results, and more precise engineering calculations.

There are many things that can be done to improve the effectiveness of the creative people in the research division. The development of better research tools certainly stands high on the list. Today mathematical techniques and computing machines not only help development people and engineers, but are now being used by the research people themselves. To cope with the tremendous outpouring of scientific information, research people can be greatly helped by the development of efficient systems for classifying and feeding to them information that will be of value.

A well-managed, efficient research organization provides the best possible environment for stimulating creative people to put forth their best efforts. The net result will be greater achievement at lower costs.

■ *From an address by Dr. C. L. Fleming, Jr., at the eighth annual Conference on Industrial Research (sponsored by the Dept. of Industrial and Management Engineering of Columbia University).*



"Quick! Close the door, Pearson. I think I've discovered something!"

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ALSO RECOMMENDED

Brief Summaries of Other Timely Articles

GENERAL

THINKING AHEAD: HOW SERIOUS IS CREEPING INFLATION? By Sumner H. Slichter. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), September-October, 1957. Reprints $1.00. Though a number of prominent economists have emphasized the danger of creeping inflation in recent public statements, Dr. Slichter argues here that inflation is not the monster it is often portrayed to be and that there are, in fact, good reasons for supporting rather than condemning it. He concedes that it has meant some hardship in certain sectors of the economy (though the so-called victims of inflation have realized certain gains that nobody seems to talk about), but this is part of the price we must pay for continued economic progress.

WHEN A COMPANY SELLS OUT. By Edward R. Bagley. *Dun's Review and Modern Industry* (99 Church Street, New York 8, N.Y.), September, 1957. 75 cents. The highly active market for businesses records 1,000 major deals every year, with the combined assets that change hands amounting to nearly $2 billion, reports the author. Pointing out that a prospective seller should have a well-planned program, he discusses some of the reasons a company might find it wise to sell and pitfalls to be avoided when looking for a buyer and negotiating a deal.

THE MEANING OF WORK IN AN AGE OF AUTOMATION. By Bernard Karsh. *Current Economic Comment* (Bureau of Economic and Business Research, University of Illinois, 205 David Kinley Hall, Urbana, Ill.), August, 1957. Gratis. The increased professionalization required by automation may reverse the historic trend toward ever greater specialization of function with its trivialization of work, thus enabling workers to regain some of the status they lost through earlier technological changes, says the author. In this discussion of how the worker's relationship to the machine and his job is changing, he also predicts the elimination of present work measurement systems and wage incentive plans, since an automation worker's worth cannot be evaluated in production units.

I AM A KIDNAPER OF SORTS. Anonymous, as told to James Joseph. *The Saturday Evening Post* (Independence Square, Philadelphia 5, Penna.), September 14, 1957. 15 cents. A look at the seamy side of engineer recruiting is provided in this "confession" of a company talent hunter who uses a bagful of tricks to lure graduates, professors, and other companies' engineers into the fold. Although the author admits that the frantic, no-holds-barred tactics used by himself and many other recruiters means fewer graduates are staying in school to get advanced degrees, he also maintains that company-sponsored college research projects are helping to underwrite scientific careers.

THE FACTORY OF THE FUTURE. By Negley Monett. *Pacific Factory* (709 Mission Street, San Francisco 3, Calif.), August, 1957. 50 cents. Atomic and solar power plants, automated assembly lines, the use of magnetic tape for order-filling, a dust-free atmosphere of controlled temperature and humidity, the utilization of color dynamics, inspection by television and

x-ray—these are some of the aspects of the factory of the future, according to this article. Although no single plant now incorporates all the features described by the author, he points out that this plant is not a figment of the imagination, since all the equipment and systems described are actually in use today in plants throughout the country.

SEARCH FOR A MANAGERIAL PHILOSOPHY. By O. A. Ohmann. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), September-October, 1957. Reprints $1.00. Since industrial progress itself creates social problems, like housing, community services, technological unemployment, and business cycles, management cannot completely leave the individual to shift for himself, the author of this thought-provoking article points out. Moreover, the answer to these and other evolving social problems—particularly the loss of individual identity with the continued de-skilling of jobs—will call for something far more positive than a "welfare philosophy" on the part of business.

STRATEGIC FACTORS IN MANAGERIAL DECENTRALIZATION. By Edgar G. Williams. *Business Horizons* (Bureau of Business Research, Indiana University, Bloomington, Ind.), June, 1957. $1.50. For a number of companies, decentralization has not worked out, says the author, attributing the failures to such factors as lack of a basic management philosophy, lack of well-defined business objectives, an inadequate supply of properly trained executives with capacity for development, insufficient delegation, and ineffective communication with subsequent lack of control. Cautioning that decentralization is no panacea for managerial maladies, he discusses some of the important prerequisites necessary for a company that hopes to benefit from the organizational changeover.

INDUSTRIAL RELATIONS

LABOR-MANAGEMENT STATESMANSHIP: EVOLUTION AND CHALLENGE. By Fred Witney. *Business Horizons* (Bureau of Business Research, Indiana University, Bloomington, Ind.), June, 1957. $1.50. Cooperative efforts by unions and employers—based on their mutual interest in a healthy economy—are needed to deal with such vital problems as working out a wage structure conducive to price stability and making the transition to automation as painless as possible, maintains the author. In this article, he discusses the contributions of both labor and management to the increasingly harmonious labor relations of recent years.

LABOR LAW'S NEW MEANING. By Boyd Leedom and Philip Yeager. *Nation's Business* (1615 H Street, N.W., Washington 6, D.C.), August, 1957. $18 for three years. During the ten years since the passage of the Taft-Hartley Act there have been important changes in legal relationships between employers and unions, due to the rules of the Act itself, other federal and state legislation, and the ways in which the laws are being interpreted by courts and administrative bodies. Some of these changes—such as the inclusion of employee stock purchase plans as a bargainable issue—are discussed, along with still unsettled legal conflicts, in an interview with NLRB chairman Boyd Leedom and an article on significant court decisions in various cases involving union-management controversy.

WANTED: MORE BUSINESS BACKBONE IN LABOR RELATIONS. By Horace E. Sheldon. *Dun's Review and Modern Industry* (99 Church Street, New York 8,

N.Y.), July, 1957. 75 cents. Large segments of U.S. business have fallen victim to a galloping epidemic of weak knees and spongy spines in their relations with unions, asserts the author, pointing out that many businessmen decline to take a public stand against union abuses because they are afraid to offend the unions with which they deal. Although there is often a real basis for such caution, he maintains that this lack of management backbone both hampers efforts to do anything legislatively about union abuses and fosters the erosion of basic management rights in collective bargaining and contract administration.

HOW TO FIGURE OVERTIME PAY. By Robley D. Stevens. *Mill & Factory* (205 East 42 Street, New York 17, N.Y.), August, 1957. 60 cents. The tricky nature of overtime pay computations sometimes results in a company either inviting trouble from government wage-hour inspectors by inadvertently paying too little overtime, or needlessly wasting money by paying too much, says the author. In this article he presents a guide to the figuring of overtime pay for various types of workers in plant and office, including hourly-rate employees, pieceworkers, salaried employees with regular or irregular hours, day-rate employees, and job-rate employees.

OFFICE MANAGEMENT

A PROGRAM FOR RECORDS SURVIVAL. By Charles T. Utt. *N.A.A. Bulletin* (505 Park Avenue, New York 22, N.Y.), August, 1957. 75 cents. In addition to protecting a company's vital documents from possible destruction, a well-organized records survival program can yield a substantial by-product of increased efficiency in the use of filing equipment, storage areas, and records personnel, says the author. He describes the steps necessary to achieve adequate records protection, including (1) taking physical inventory of existing records, (2) determining retention schedules, (3) classifying records according to their usefulness, and (4) deciding on methods of protection.

HOW TO SELECT THE BEST MACHINES FOR YOUR OFFICE'S NEEDS. By Walter S. Athearn. *Office Management* (212 Fifth Avenue, New York 10, N.Y.), August, 1957. 45 cents. A guide for the office manager who must evaluate competing office machines and come up with the one best suited for his company's needs. The author outlines methods of (1) comparing operating costs, (2) evaluating mechanical differences, and (3) making final recommendations.

NEVER OVERESTIMATE THE POWER OF A COMPUTER. By Ralph F. Lewis. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), September-October, 1957. Reprints $1.00. The real reason for large numbers of computer installations, the author declares, has merely been to keep up with the Joneses, and the benefits, by and large, will not be so dramatic as their owners hope. Before taking the plunge, he urges, management should give sober consideration to some key questions, examined in this article, which will have an important bearing on the decision to install a computer.

HOW TO TRIM DOLLARS FROM YOUR TELEPHONE BILL. By Frank K. Griesinger. *Management Methods* (22 West Putnam Avenue, Greenwich, Conn.), August, 1957. Reprints 50 cents. A guide for the company that seeks to make more efficient use of its telephone system at lower cost, this article offers tips on choosing between different telephone services, using air mail instead of long-distance calls, eliminating expensive inter-communication lines, reducing fixed monthly charges, and taking other steps that can mean substantial savings.

PRODUCTION MANAGEMENT

QUALITY CONTROL SYSTEM FITS SHORT-RUN JOBS. By R. L. Grunewald and Curtis Williams. *Mill & Factory* (205 East 42 Street, New York 17, N.Y.), August, 1957. 60 cents. Despite the orthodox belief that statistical quality control systems are not feasible for short production runs, one company division (General Electric's Aircraft Gas Turbine Division, Evendale, Ohio) has devised such a system that is flexible and yet provides detailed data on which to base immediate corrective action. After describing the operation of the system, the authors report that it has not only sharply reduced manufacturing losses and improved product quality, but has also reduced cycle time and in-process inventory. Illustrated.

NEEDED—INTEGRATED COST REDUCTION. *Factory Management and Maintenance* (330 West 42 Street, New York 36, N.Y.), August, 1957. $1.00. To be successful; a cost reduction program must involve all of a company's key functions and must be a sustained, permanently organized activity rather than a one-shot affair. That's the theme of this special 44-page feature which includes articles on planning for integrated cost reduction, a survey of 330 companies' cost reduction plans, how eight plants have organized their cost reduction programs, and how better plant services can help cut costs.

PLANNING MATERIALS HANDLING. *Management Digest* (330 West 42 Street, New York 36, N.Y.), August, 1957. $1.00. A step-by-step guide to building an effective materials handling program from the ground up. Beginning with tips on analyzing materials handling problems with flow charts and scale models, the article discusses the effect of structural limitations on handling methods, the selection of handling equipment, administering the handling program, and the impact of automation on handling techniques.

GIANT HANDS FOR STOCKPILING. By Everett L. Sparks. *Flow* (812 Huron Road, Cleveland 15, Ohio), August, 1957. 50 cents. Achieving the greatest efficiency and lowest possible cost in stockpiling bulk materials means choosing wisely from among three basic methods of stockpiling: mobile units, conveyors, and overhead bridge cranes. The author discusses the factors to be considered in making the selection, analyzes the merits of each method for specific needs, and presents concrete examples of how companies are effectively using the various systems.

22ND ANNUAL MATERIALS HANDLING YEAR BOOK. *Pacific Factory* (709 Mission Street, San Francisco, Calif.), July, 1957. $1.00. With materials handling representing a sizable slice of total production costs, it is a prime area for substantial savings through the use of modern methods and equipment. Featured in this special issue are a materials handling equipment guide for smaller companies and articles on using electronic equipment to facilitate warehousing and distribution procedures, selecting the right lift trucks, and increasing efficiency with overhead conveyors.

HOW MANY DOLLARS FOR NEXT YEAR'S MAINTENANCE? By Robert H. Emerick. *Mill & Factory* (205 East 42 Street, New York 17, N.Y.), September, 1957. 60 cents. Estimating next year's maintenance costs can be simplified with a system based on the ratio between scheduled and unscheduled maintenance, according to the author. Describing how the method works, he points out that it tells management in advance whether there are too many or too few maintenance men available. Illustrated with charts.

MARKETING MANAGEMENT

ADVERTISERS' GUIDE TO MARKETING FOR 1958. *Printers' Ink* (205 East 42 Street, New York 17, N.Y.), August 23, 1957, Section Two. $2.50. In addition to basic advertising and marketing information, the fifth annual edition of this comprehensive reference book for advertising people contains several new features, including: the over-all market picture in terms of population trends, income, employment trends, etc.; a discussion of the ratio of marketing costs to sales; a listing of supplements and the newspapers that carry them; and a report on industrial advertising budgets.

HOME AND HOUSEWARE SPENDING PROJECTED TO 1965. *Nation's Business* (1615 H Street, N.W., Washington 6, D.C.), August, 1957. Reprints 15 cents. Although total spending for housing and household goods will increase 40 per cent over the next eight years, the sales of some types of goods and services will far outstrip those of others, according to this report based on consumer expenditures data gathered by the Bureau of Labor Statistics and analyzed by the Wharton School of Finance and Commerce. Some of the predicted spending increases are: rent, up 21 per cent; household operation, up 52 per cent; fuel, electricity, and water, up 33 per cent; furniture, up 42 per cent; and household equipment, up 37 per cent.

NEW DIMENSIONS IN LATIN AMERICAN MARKETS. By Alexander O. Stanley. *Dun's Review and Modern Industry* (99 Church Street, New York 8, N.Y.), September, 1957. 75 cents. A rapidly expanding population, heavier inflow of U.S. and foreign capital, and the quickening pace of its industry and commerce are making Latin America an area of rich economic promise, says the author. In this study of the key markets south of the border, he analyzes the region's assets and liabilities in terms of such factors as population, labor groups, manufacturing, balance of trade, and foreign exchange holdings.

STRADDLE SELLING OR SPECIALIZATION? *Sales Management* (1212 Chestnut Street, Philadelphia 7, Penna.), August 2, 1957. 50 cents. Although merged firms or those employing separate sales staffs to sell different types of products are frequently convinced that they will achieve drastic savings by consolidating their sales forces, this article points out that there are many conditions under which such consolidation simply will not work. This review of the experience of eleven companies clarifies some of the factors that must be considered when a company is deciding whether to depend on "straddle selling" or specialization—or on a combination of both.

FINANCIAL MANAGEMENT

MEASUREMENT OF RETURN ON CAPITAL EMPLOYED. By Joel Dean. *Cost and Management* (31 Walnut Street South, Hamilton, Ontario), July-August, 1957. 50 cents. Pointing out that a company's future growth and earning power is determined in large part by the skill with which its top management handles the acquisition and expenditure of capital, the author examines the factors that must be considered in measuring return on individual capital projects. This article outlines four yardsticks for measuring investment worth and discusses the principles involved and the problems that arise in applying these yardsticks to capital proposals.

CHOOSING AN ACCELERATED DEPRECIATION METHOD. By Carl M. Esenoff. *The Journal of Taxation* (147 East 50 Street, New York 22, N.Y.), September, 1957. $1.25. In choosing between the sum-of-the-years-digits method and the declining balance method when group depreciation accounts are used, the decisive factor is the size of the salvage ratio and the stage in the asset group's life cycle at which salvage is realized, says the author. He analyzes this and other factors to be considered, and suggests that benefits may often be gained from using the declining balance method in the early years of an asset's life and then switching over to straight-line as annual allowances begin to drop. Tables.

HOW TO KEY SALES EFFORTS TO PRODUCTION COSTS. By Spencer A. Tucker. *American Machinist* (330 West 42 Street, New York 36, N.Y.), August 12, 1957. 75 cents. Emphasizing that sales and production must be coordinated if company activities are to remain healthy, the author describes a method of setting up sales controls that will show how effective each salesman is and how effectively production is functioning in relation to sales volume. Illustrative tables help to clarify this discussion of how to establish product costs, how to reconcile estimates and cost statements with sales, and how to determine which production facilities should receive sales emphasis.

LOOKING TOWARDS STANDARDS FOR CONTROL OF DISTRIBUTION COSTS. By Charles H. Martin. *N.A.A. Bulletin* (505 Park Avenue, New York 22, N. Y.), July, 1957. 75 cents. Although little has been done about developing a set of techniques for analyzing and controlling distribution costs, says the author, a start can be made by breaking down such costs along functional lines to isolate specific items of expense for which cost standards can be set. He outlines a procedure for analyzing distribution expenses which provides each department head with a more detailed picture of his operation costs for nonproduction activities than can be gained from traditional financial reports.

PACKAGING

PACKAGING: INDUSTRY LOOKS AHEAD. By Annesta R. Gardner. *Dun's Review and Modern Industry* (99 Church Street, New York 8, N.Y.), September, 1957. 75 cents. Change is the order of the day in packaging, according to this special feature, which offers a survey reporting that a sizable majority of manufacturers in industries ranging from lathes to lingerie are planning major changes in package type, styling, and materials in the next few years. In addition to the survey, there is an illustrated section on the newest trends in packaging materials and techniques and a check list of possible ways a company might improve its packaging.

THE MIX-UP IN MERCHANDISING. *Modern Packaging* (575 Madison Avenue, New York 22, N.Y.), August, 1957. 75 cents. It's hard to tell food, drug, and variety stores apart these days, but the overlapping of these once-distinguishable marketing channels doesn't mean that the same package will be equally effective for all, says the author. He points out as an example that drug stores are now seeking miniature-sized packages for health and beauty aids while variety stores are discontinuing them, and discusses some of the other qualities of appearance and convenience that both retailers and consumers are demanding in packaging.

Committees: Their Place in Management Today

(Continued from page 10)

"seldom" or "never." The majority feel that at least a fair number of committee decisions can be and, in practice, *are* determined in advance by individuals.

THE MECHANICS OF AGREEMENT

How do committees formulate their decisions? The most frequently cited method is consensus—used in 32 of the committees considered. In 16, decisions are made by the chairman. Majority vote is required in 15, and only 6 ask for unanimous approval. But just 14 replies indicate that votes, i.e., responsibility for decision, are recorded.

The emphasis upon consensus deserves consideration. Advocates say consensus allows an issue to be discussed thoroughly until participants arrive at mutual understanding and, if not literal agreement, at least harmony. This method, they argue, often delivers a fuller, more mature and probably more durable verdict than one which, though made through the democratic process of the ballot, is sometimes made under pressure, before the issue has been fully understood.

Opponents seize upon this facet as a primary argument against the committee system itself, however. Consensus, they say (and committees, they imply), delivers a watered-down decision that simply takes too long to arrive at. "Compromised decisions are so poor it's a waste of time, except where compromise is required—as across division lines on policy," one division manager notes.

COMMITTEE SIZE

In more than half the companies (41 out of 72 replying to this question), the committee has between six and ten members. In another 23, membership is confined to five or fewer members. Only 8 of the 72 committees considered have more than 10 members, however.

It is interesting to compare this with research findings developed at Harvard's Laboratory of Social Relations, which suggest that the most efficient committee has between four and seven members

—ideally, five. Realities of industrial life may not permit adherence to that ideal, however; often it may be more important to get adequate departmental representation than to limit committee size by any arbitrary standard.

WRITTEN POLICIES

Are the duties and responsibilities of committees spelled out in black and white? In three out of five cases, the survey found, committee duties and responsibilities are described in written statements. Here, again, company size makes a difference: The largest companies (which have the most committees) are more likely to formalize committee operation with documentary descriptions; these are not so important in the smaller company, where the president and two or three of his closest officers may conduct all business through one management committee. Only 31 respondents report, however, that there is a *company-wide* policy covering committee formation, committee structure, or committee operation. Just 32 undergo formal evaluation. Written statements on committee duties range from brief, one-paragraph generalizations to multipaged brochures defining technical points of company procedure in detail.

WHO REALLY DECIDES?

In a final effort to appraise the role of committees in management today the questionnaire asked the executives to answer three "forced-choice" questions with regard to their own companies: Is authority centralized or decentralized? Do individuals or committees make most important non-board decisions? Is there much or little group participation?

Some 60 per cent of the executives replied that authority in their companies is centralized. And, as might be expected, in the majority of companies (50 out of 77) individuals still make most important non-board decisions. But what is perhaps more significant about the replies to this question is on the other side of the coin—the fact that as many as 27 (slightly more than a third) say that most important non-board decisions are now being made by committee. Finally, more than 70 per cent of the executives expressed the view that there is "much group participation" within their companies today.

At the very least, all this suggests a definite trend toward decen-

tralized decision-making, however it may be modified in individual companies. What, then, are the unsolved problems surrounding committee management that may well determine its future course? When they were given an opportunity at the end of the survey to comment, executives singled out these problems in particular:

The first is the obvious difficulty of fixing responsibility for the decisions developed by committees. Its concomitant is the fact that committee members, aware that they are not individually accountable for the results, may not devote the same energy and ingenuity to attacking a problem as they would under the sobering burden of individual responsibility. Others point out that it is an individual—a company officer, or ultimately, its president—who must answer for the success or failure of company policies. Why, then, they argue, should he not also have the last word in deciding those policies? As one company president declared: "I believe committees *cannot* supplant the executive charged with major responsibility." Others point out that ways will have to be found for reducing the amount of time executives must spend in committee work.

On the more nebulous problems of accountability, some companies are working out compromises. Several have executive groups that work as committees, though final decision "rests with" the president. In another company, responsibility is always assigned to one executive and he, in turn, is encouraged to use committees to get facts and advice.

Many comment that they value their committees for purposes apart from decision-making: to coordinate, to communicate, to acquaint top management with the thinking of its key executives, and to train. This is borne out by the fact that 17 of 77 respondents reported earlier in the survey that their companies have established junior (or auxiliary) boards. Through them, executives down the line have the opportunity to consider company problems that extend beyond their own bailiwicks and to make recommendations to higher management.

COMMITTEES—GOOD OR EVIL?

Meanwhile, there's no dearth of opinion about committee management, pro and con:

"Committees should be expanded," says one president. "I am opposed to delegation of authority," declares another.

Their chief function, says one man, is to "give a greater sense of participation," while another considers it merely "to preserve an illusion of democracy."

"Good way to escape hard work," a general manager asserts, while his opposite number maintains, "They develop leadership, lead to greater teamwork, cooperation, and morale."

"They're slow," complains one executive. "A necessary evil," adds another. "They're most valuable," a proponent states flatly. A critic dubs them "worst waste of time I can imagine."

Some executives aren't quite sure at this stage of the game. "Committees are just beginning to be understood," one respondent ventures mildly. And another, apparently mindful of both the benefits and the problems that still surround group decision-making, may speak for many in management when he says, simply: "Today committees have become a must—but they're still a mystery."

U. S. Undergraduates Choose Careers

MOST STUDENTS seem to have their eyes on a professional career, if 2,000 students in 21 northern California high schools, colleges, and junior colleges can be considered typical of U.S. undergraduates. Of this group, recently polled by the Stanford Research Institute, 57 per cent plan to enter the professional and technical field as accountants, architects, dental technicians, engineers, lawyers, musicians, nurses, scientists, and teachers.

The second largest group (14 per cent), composed largely of high school girls, plan to work in clerical occupations. And the San Francisco Sales Executives Association, with whose cooperation the survey was conducted, probably found no joy in the fact that the field of sales attracted only 6 per cent of the students, tying for a poor third place with the crafts.

The remaining 17 per cent of the respondents indicated a variety of aspirations, including business, farming, and homemaking.

—*Sales Management* 6/21

How Accurate Are Your Job Titles?

FAR TOO MANY COMPANIES perpetuate job titles that make employees unhappy because the title either has degrading connotations or has nothing to do with the actual job. It may pay to take a thorough look at the job titles in your company with an eye to changing those that may be hurting morale.

A common example is the supervisor who is called the "chief clerk" despite the fact that he is actually the office manager. This and similarly unfortunate titles are often hangovers from the days when the company was founded.

Even when a company classifies jobs for purposes of wage and salary administration, the working title actually used by the employee can be changed without disrupting the classification system. When making changes, here are a few points to consider:

1. Be sure the new title explains the function of the job. A new title may make a worker feel fine for a while, but it's no help when he frequently has to answer the question, "But what do you do?"

2. Never offer a name change instead of a raise. Experience shows that attempts to use "paper promotions" when more is clearly required will inevitably lead to resentment on the part of employees.

3. Don't carry title-changing to ridiculous extremes. A sweeper by any other name would still be a sweeper—not a "sanitation engineer." Attempts to gild menial jobs with fancy names will yield nothing but laughter and contempt.

—*The Office Economist* 7/8/57

Management and its Publics

(Continued from page 17)

Another phase of our community work at Sears is assistance to the efforts to halt the spread of blight and decay in our larger cities. The neighborhood of Sears headquarters in Chicago is a case in point. Here, because of lack of adequate maintenance, a whole area was beginning to run down. Sears was faced with the choice of moving away or staying and putting its efforts behind a neighborhood renewal scheme. The decision to stay was made, and a program was developed involving about $5,000 in prizes for home and neighborhood improvements in a variety of categories. The change in the area was amazing. Houses were painted, gutters repaired, porches restored, alleys cleaned, and backyards grassed and provided with flowers and outdoor furniture. With the stimulus of an act of faith and a small investment on the part of Sears, and with the cooperation of many citizens, a neighborhood is regaining faith and pride in itself.

Our contribution in the urban renewal field is not only financial. It also involves the time and effort of our local executives, whose duties include a reasonable participation in whatever projects seem most important to them in their particular communities.

MANAGEMENT AND THE PUBLIC

Most national corporations are as much concerned with their standing before the national public as with their standing before the community in which they operate. One way to approach this greater public is through programs directed specifically toward various segments of it. This approach can be illustrated by Sears' programs relating to the fields of medicine and education.

We at Sears first became interested in the problem of the distribution of medical care as a result of our work in community improvement. We were struck by the fact that frequently a major objective of community endeavor was the securing of a doctor or the building of a medical center, or otherwise improving the caliber of medical service in the community. It appeared to us that herein lay opportunities not only to assist individual communities but to demonstrate in an effective manner the concern of our company for

a problem which was likewise of concern to the public at large.

Since the obvious group to work with in the field of medical care was the American Medical Association, a series of conferences was initiated with the trustees and officers of this organization. The result was the establishment of a cooperative program which entails a loan fund to help provide doctors with the equipment needed for modern medical practice. The purpose of the fund is to help provide the facilities that are often available only in larger communities. This is no give-away program. These are loans, not gifts, and they are repaid into a revolving fund and used again to make loans to other doctors. The loans, which are subordinated to the doctors' other obligations, frequently represent the added 25 to 30 per cent of financing, unavailable elsewhere, that makes a venture possible.

Our program of aid to education, especially higher education, is based on our consciousness of the obligations of business to assist the colleges and universities to meet the increasingly great challenge with which they are faced.

The program consists of three major elements: (1) participation by Sears stores and mail order plants in capital fund drives of schools in their communities, scaled according to the size and position of the local unit in the local community; (2) a system of scholarships for farm boys and girls and for high school graduates in some larger cities where we have major operations; and (3) merit scholarships, used only in private, independent colleges, with preference being given to the smaller and medium-sized institutions that are most urgently in need of financial aid.

When we add together the memberships of the various groups with which we work—and I have cited only a few examples from our total program—they run into many millions of people. We feel that the favorable attitudes toward our company thus created are an important achievement. The costs are small in comparison to any form of commercial publicity, and, more important, these programs add many times their cost to community values.

MANAGEMENT AND GOVERNMENT

Government today is the most powerful and pervasive institution in our society, and has a more potent influence on business and economic life than any other force. Business shares with all other

groups in our society an interest in government and the way it is run. It is not enough for the individual businessman merely to follow the recommendations of organized business groups or the so-called "business positions" adopted by such groups. This approach is essentially doctrinaire—just as doctrinaire in its own way as the approach often followed by the critics of business.

It is largely because of this doctrinaire approach that business so often finds itself in a defensive position, trying to defeat some measure sponsored by other groups or interests. Too often we have left the initiative to others, especially in matters affecting the general welfare. As a result, the fight is almost always on someone else's terms and business is almost always at a disadvantage.

I would like to see business *for* things, rather than everlastingly *against.* I would like to see business take more initiative in sponsoring measures for dealing constructively with problems of general concern. I would like to see business more closely identified in the public mind as interested in and working for the common good.

Businessmen need make no apology for playing an active political role, any more than we would expect an apology from the leaders of organized labor or organized agriculture for the political role they are playing. Not only do we have the right of free speech, but businessmen have points of view and legitimate interests which need to be as effectively prosecuted as those of any other group. No other group has such broad responsibilities to the people as a whole.

MANAGEMENT'S RESPONSIBILITIES TO THE PUBLIC

Business management has come a long way. It has believed in and backed those scientists and engineers who have created the tools of modern industry which, in turn, have greatly increased productivity and almost eliminated classical poverty arising from economic causes.

But a large field of influence for the public good remains within the province of corporate management. To fulfill its role as a constructive member of society, it must deal responsibly with its claimant groups, as well as developing policies and practices that will encourage maximum human development within its own organization.

Unions Win More Security Clauses

DESPITE THE RESTRICTIVE IMPACT of state right-to-work laws, labor contract clauses providing some type of union security are more common than they were three years ago, according to a recent survey by the Bureau of National Affairs. Such clauses are of two main types: provisions dealing directly with union security and provisions for checking off dues. Only four contracts out of a hundred now fail to include one or more such provisions; in 1953 the figure was seven.

Frequency of clauses dealing directly with union security increased from about 70 per cent in 1953 to 75 per cent in 1956. All of this gain has taken place in manufacturing industries. A union shop—either full or modified—is the most common form of security, with 60 per cent of agreements having this clause. Maintenance-of-membership clauses are found in 13 per cent of agreements, and closed-shop clauses in 2 per cent. Check-off provisions appear in 80 per cent of agreements.

—*Labor Policy and Practice* (Bureau of National Affairs, Inc., Washington 7, D.C.) No. 356

"As you can see, there will soon be plenty of room at the top."

Top Management and Cost Reduction

(Continued from page 26)

annual plan is finalized. This separation of review of overhead costs from basic planning gives management two looks at overhead: first, on a department-by-department basis, and then as part of the over-all plan, when the total overhead can be viewed in the light of expected financial results.

One way—and the best way—to cut overhead costs is to have action initiated and carried out by the line and staff officers directly concerned. This is the way we have achieved our best results. With the right climate and the right men, it frequently is sufficient without any central directive or control.

But more often than not decentralized responsibility for cost control is not enough. When the sum total of projected expenses is so high as to produce an inadequate profit (as measured in the light of expected sales), central control of cost reduction becomes necessary. It is not unusual in business to find virtually every element of overhead reasonable and worthwhile in itself—but with the combined total more than the business can support. Then it becomes necessary to enforce cost reduction by central authority.

In some companies, the president takes the lead in centralized cost reduction. Sometimes a committee of officers (often called a budget committee) or a staff department is given the job of coordinating an enforced cost reduction program. But regardless of who does it, essentially central cost reduction is imposed in the following manner: The reviewer of costs usually considers comparative costs in recent years and tries to measure the workload of each department. Usually, the reviewer has a total company-wide figure to be achieved by cost reduction. Then, after considering the statistical data and all other pertinent facts available, he decides how much each department must be cut—and sometimes where. Here a good accounting department can perform an important role. It should provide the reviewer with full and readily usable data which will, to the extent that finite figures can do so, guide the reviews to a sound decision. While no central reviewer can arrive at an absolutely just and scientific allocation of the required expense reduction, this method is preferable to a flat across-the-board cut.

Many times, though, the central reviewer finds that the time and information available do not enable him to apply a total budget cut to each department on a sound basis. Further, the variable application always arouses resentment in the departments more severely trimmed. Then the only alternative is a flat cut on all budgets.

Centrally enforced budget cuts are, of course, unpopular. It is not pleasant to be the one doing the trimming, and it is even less pleasant when your own department is trimmed. It can be argued that across-the-board cuts are unfair; that they reward the extravagant and penalize the efficient; and that they are evidence of a management failure to have done a good job in the first place. Further, flat cuts—if applied too often—merely teach people to overbudget in expectation of a cutback. Nevertheless, experience indicates that every three or four years an enforced budget cut (scientifically apportioned if practical, otherwise on a flat basis) is necessary if expenses are to be kept in line.

The required cut may be modest or large, depending upon the needs of the business. In our company we have used the device of asking each department head to tell us where he could cut if he had to make, for example, a 10 per cent reduction. Then, in the light of his report, we try to apportion the cut at least on a semiscientific basis. Department heads tend to become such advocates of the services of their departments that they lose perspective as to the needs of the business as a whole, and only a centrally enforced cut will bring the cost of various functions back in line. And it is surprising how much individual departments can do and are willing to do themselves, by way of trimming, if properly encouraged. In the process of trimming, of course, it is extremely important to be selective. The good men, the "comers," must be kept. Waste must be pruned. Great care must be exercised not to retain extravagances and not to overprune activities of real future importance.

EMPLOYEE SUGGESTIONS

There are ways to cut overhead that are better than centrally enforced budget cuts. The most obvious is to find cheaper and better ways of performing the same functions, and the first step in this direction is to create the right internal climate and to encourage and reward men who produce results.

It's an old bromide that to make money you must spend money. Frequently you must increase expenses first in order to reduce them later. To begin with, nothing is so costly as a poorly paid staff. Second, it pays to be liberal in the area of employee benefits. A man who is worried about hospital bills won't do his best job in thinking up creative ideas. Next, don't organize your staff so tightly that no one has time to think or plan. Your key staff men must be able to visit other companies, to attend conferences and other meetings, sometimes to travel to distant plants and sales offices.

Further, to the honest limit of your abilities, you must give your staff a strong sense of job security. You will get few ideas for improvement from an organization that wonders who's going to be fired next. Normal turnover will let you make most staff reductions without wholesale discharges; and, even if you slow down your attainment of full economies by waiting for normal turnover and transfer to adjust the situation, you will usually find more than compensating rewards in the attitude of your organization toward other changes and new ideas.

The way we treat suggestions from employees will in large measure determine whether or not we keep ideas coming to us. Of course, the majority of suggestions will be old or impractical. But, if we want to be sure to get the one in a hundred that is really worthwhile, we've got to give them all careful heed—and, most important, we've got to make the man or woman who offered the suggestion feel that his idea had a fair hearing and that he or she is better off for having made the suggestion.

Personal experience with formal suggestion plans and formal work simplification programs has not led me to favor them. I've found them too time-consuming and full of red tape. But their basic objective is sound. My only real argument against them is that the same objective can be realized more simply by encouraging and rewarding ideas informally.

There is no substitute for generous monetary recognition. Yet man does not work for money alone. The prospect of monetary rewards will not by itself get the full measure of employee cooperation and initiative. But proper rewards, coupled with recognition and a real effort to give a man a personal sense of accomplishment and satisfaction for a job well done, can bring out his best.

Therefore, while the appraisal and implementation of ideas require technical skill and experience from management, it should be emphasized that sound personnel relationships within the organization are the only real way to tap the keg of employee ideas and cooperation. Moreover, getting the idea is only half the job. The other and sometimes bigger half is to make it work. Here again, the way higher levels of management handle the whole job with junior associates will determine the success of the program.

Unless this job is done right—that is, unless ideas are encouraged and rewarded and the will to make them work is inculcated—we'll lose one of the best cost reduction tools we have.

REAPPRAISAL OF STAFF FUNCTIONS

Most modern organizations employ some form of line-staff organizational setup. By and large, an increasing amount of our payroll is spent for staff functions.

Let's admit frankly that overhead reduction means payroll reduction. Overhead may be reduced in other areas, but most companies won't make much of a dent in their overheads unless they reduce payrolls—and the functions and activities that cause payroll expense.

Staff functions can be divided into two types:

1. *Specialized staff functions* are those which have their origin in the highly specialized nature of their activity and of whose basic necessity there can be no question. For example, there can be little doubt as to the need for a tax department in any large corporation. This does not mean that the tax or any other department should be exempt from the general search for economies. But the basic necessity for the specialized tax function is beyond dispute, and there is usually little to be gained by reviewing its essentiality.

2. *Advisory staff functions* are the functions which exist primarily to advise, guide, and lead the line organization in the proper performance of its jobs. Many aspects of the personnel and public relations departments fall into this category. Such departments have direct specialized functions of their own to perform, but their real value (and a large share of their cost) is directed to their advisory work with the line organization.

Included in this advisory category, too, are those staff functions which exist to observe, analyze, and recommend changes where

operations cut across organizational lines and where the solutions to problems of company-wide import cannot be found by any division or department working within the limits of its own organizational responsibilities.

The category of advisory staff functions contains some of the greatest opportunities for elimination of waste and profit enhancement. This is not to say that such staff functions should be abolished wholesale. On the contrary, they are extremely valuable—when properly and adequately performed. It is true, however, that many companies are not receiving full value for what they are spending in this area. There are several reasons for this:

Underassessment of the Problem. One common reason why staff operations fail to give full value is that we are unwilling to spend the money to get the job done right. Underassessment of the problem is a frequent cause of waste. Somebody recognizes a need and the long-range opportunity to save money, and a new staff unit is born. This is fine, if we recognize in advance how long we may have to wait for a return on our money and if we face up to the cost of doing an adequate job.

A friend of mine recently had an idea for a marketing innovation. His idea, in my judgment, was good. But I think it will fail, because he plans to spend about $25,000 in trying it out, whereas I'm sure it will take at least $100,000 to give it a fair trial.

Failure to Gauge Practical Possibility. Another common mistake in planning advisory staff functions is the failure to determine whether or not the objective toward which they are pointed is currently attainable in a particular company. Many a staff function is highly successful in one organization and a failure in another—not because the idea wasn't good, and not necessarily because the staff men weren't able—but just because the time wasn't right. Failures like this usually occur because the line organization is preoccupied with problems of greater priority. There is no use in having a hatful of good recommendations if the men who must implement them don't have the time to listen, much less carry them out. Men, and their ideas, who have been great in one era of the world's history might easily have been failures in another. So one important factor in assessing staff functions is judgment as to the practical possibility of the staff program's succeeding *at this time.*

Involvement in Fads of the Moment. Still another mistake that companies make is to become enamored with projects that are the vogue of the moment. There are corporate styles and fads in staff functions, just as in women's fashions. Cost accounting years ago was a great fad, and I'll wager millions of dollars were spent in prorating overheads and getting tidy cost figures that led to no constructive action. Currently, executive development programs are the mode of the moment.

Now, there is no question about the value of properly administered cost accounting, and nothing will pay returns like an intelligently run executive development program. But both functions can waste a great deal of money if they aren't continuously and realistically appraised. Too many staff activities exist because some executive, substituting mental clichés for real thinking, starts a staff activity simply because others have done so and he wants to be considered equally progressive and up to date. Just as his wife wouldn't be caught dead in a dress with last year's hemline, he won't feel that he's in the swim unless he too has the latest plan or program. It takes courage sometimes not to engage in a new activity which everyone else is introducing. But courage—and, most of all, plain reasonableness and objectivity—will help you avoid spending money for innovations which (regardless of their basic soundness and current popularity) may not be worth while for your company *at this time* under existing conditions.

It's an interesting paradox that the company with the brightest, most energetic, most imaginative executive staff is often the one which wastes the most money on ill-conceived, or badly timed, or simply too many staff activities. The reason is obvious. The remedy is not so obvious.

One cure for corporate indigestion from too many staff activities is to devise a plan for logging and giving priority to all proposals. This will not only help to put first things first, but it will also help to assure a coordinated approach to the primary objectives toward which the company is striving.

Failure to Use the Right Man. Finally, waste in advisory staff functions often results from failure to have the activity headed by the right man—"right" not just in a technical sense, but "right" from the standpoint of leadership and effectiveness.

Perhaps it would be useful if we had a checklist of standards to apply to all advisory staff services. Such a checklist—which would necessarily vary from one organization to another—might read something like this:

1. Are the objectives of this staff service really attainable in this organization at this time?
2. Is the executive family really "sold" on the service and its worthwhileness?
3. Does the man heading it have the necessary ability?
4. What is a realistic assessment of the time and money needed to do a bang-up job?
5. What can we depend upon in compensating money advantages, and how much should we discount that expectation, to be on the safe side?
6. Does the rate of return, discounted for risk, warrant the investment? Would we be willing to make a capital expenditure of like sum for a similar return?
7. Is it possible to make a test run or trial in a limited way, to be more certain of our projected costs and returns, before making a heavy bet on the correctness of our projected results?
8. Is the expense "affordable?" Are we trying to spend more than our purse and our time will permit at this time? Does this function fit in with the over-all program of the company?

Answering these questions will, of course, require an appraisal of advisory staff functions which, in most companies, should point the way to real profit opportunities.

The negative side—how to avoid or eliminate the unproductive function—is only one side of the coin. The other interesting and challenging side is to find new ways and means whereby advisory staff functions can improve sales and operating efficiencies and reduce costs in other areas of the business.

Almost anyone can take a modern corporate budget and blue-pencil costs that can be eliminated and still allow the company to run—for a while. However, the real art of administering staff functions lies not in blind strike-outs but in making the staff functions truly profitable. No one can lay down any simple rule as to how this can best be achieved, but the opportunities are there if we are good enough as managers to figure out how to grasp them.

COST REDUCTION THROUGH IMAGINEERING

The final technique for discovering profit opportunities is often called "imagineering." Madison Avenue uses the term "brainstorm-

ing" for what used to be "bull sessions" in our college days. "Imagineering" might be defined as "solo brainstorming."

There are three essential reasons why most of us don't do as much creative imagining and thinking as we should:

1. Most of us don't set aside enough time to think quietly and without interruption about this problem of costs. Making overhead pay isn't the result of wishful thinking sandwiched in between a host of day-to-day chores. It takes real management in our fewer-than-40 hours a week at the office to find time really to work on new ideas.

2. Most approaches to the overhead problem are shackled with all kinds of conventions as to what is or is not necessary—and they too often start with a departmental outlook. The only real way to find an original answer to this problem in its varied aspects is to approach it as though we were the sole owner of the business and unhampered by conventions, customs, or departmental needs. It's surprising how many procedures, reports, and other requirements thought to be absolutely necessary appear wasteful when viewed through the eyes of a sole owner.

3. Most of us—and particularly those who have come up through the office end of the business—tend to stay close to our desks and never go to sea. "Imagineering" can be done in a cloistered office, but only if the individual at other times gets out, talks with others in his field, and exposes himself to fresh viewpoints. The navy, with its requirement for active service at sea, recognizes this fact.

One further comment: The "meat ax" approach to the elimination of waste is the conventional way to approach the problem of overhead costs. At the same time, it is the approach which has brought many economy programs into disrepute. *True* economy is a constructive thing. It is interesting. It is challenging. It requires a real knowledge of what motivates people, and, most of all, it requires a warm understanding of the feelings and attitudes of other people.

Of course, in an autocratic world, the "meat ax" approach may have been effective. But in the world in which we find ourselves, the problem is one of creative leadership and not one of autocratic dictation.

Book Notes

(Please order books directly from publishers)

GENERAL

AMERICA'S NEXT TWENTY YEARS. By Peter F. Drucker. Harper & Brothers, New York, 1957. 114 pages. $2.75. Based on the proposition that "the major events that determine the future have already happened," this book examines the most significant of these events and their probable consequences. Among the topics discussed are the effects of population changes on labor supply and the educational system, automation, the emergence of the "new tycoons" in industry, America's unaccustomed role as a have-not nation, and coming issues in national politics.

DECISION MAKING: *An Experimental Approach.* By Donald Davidson and Patrick Suppes. Stanford University Press, Stanford, Calif., 1957. 121 pages. $3.25. This monograph sets forth a theory of decision-making under conditions of risk, together with the findings of a series of experiments designed to test the theory. Included are a summary and critical analysis of earlier experimental work in this area and a discussion of the problems of empirical interpretation.

EXECUTIVE DECISION MAKING. By Manley Howe Jones. Richard D. Irwin, Inc., Homewood, Ill., 1957. 485 pages. $7.20. A practical guide to problem-solving for use in executive development programs or private study as well as college courses. Though oriented to the problems of the medium-size manufacturing company, the book is designed to provide a framework of "systematized common sense" that will be helpful to executives in all types of organizations.

PUBLIC RELATIONS IDEAS IN ACTION: *500 Tested Public Relations Programs and Techniques.* Edited and compiled by Allen H. Center. McGraw-Hill Book Company, Inc., New York, 1957. A collection of case histories of successful public relations projects described by the men who originated them. The materials are grouped into five sections representing the primary target publics: employees, investors, the local community, consumers, and the public at large.

REGIONAL INCOME: *Studies in Income and Wealth, Volume Twenty-one.* Conference on Research in Income and Wealth, National Bureau of Economic Research. Princeton University Press, Princeton, N. J., 1957. 405 pages. $8.00. Included in these proceedings of the Conference on Research in Income and Wealth held in June, 1955, are papers and discussions on the conceptual issues involved in estimating regional income, interstate income differentials, city size and income, development of postcensal population estimates for local areas, and the value of the regional approach in economic analysis.

INFORMATION INDEXING AND SUBJECT CATALOGING: ***Alphabetical, Classified, Coordinate, Mechanical.*** By John Metcalfe. The Scarecrow Press, Inc., New York, 1957. 338 pages. $6.75. Directed to the specialist in library service, this book offers a detailed analysis of the various methods of indexing and cataloging in terms of their historical development, their theoretical rationale, and their present utility.

MARKETING

SALES AND MARKETING MANAGEMENT: ***Text and Cases.*** By Lewis K. Johnson. Allyn and Bacon, Inc., New York, 1957. 644 pages. $6.95. Addressed primarily to companies manufacturing consumer goods, this text emphasizes the interdependence of the various marketing functions and shows how they can be integrated into the over-all sales operation. Among the topics covered are planning the product, packaging, market analysis, distribution policies, organizing the sales force, and methods of sales promotion and control.

SALES MANAGEMENT. By Harold H. Maynard and James H. Davis. The Ronald Press Company, New York, 1957. 666 pages. $6.75. In this third edition of their text, the authors examine the evolution of the sales administrator into a professional marketing executive, the reasons for this development, and its effect on marketing policy. Principles are stressed rather than techniques, and a number of new cases and problems are presented.

SUCCESSFUL LOW-PRESSURE SALESMANSHIP. By Edward Berman. Prentice-Hall, Inc., Englewood Cliffs, N. J., 1957. 210 pages. $4.95. A realistic treatment of the techniques of low-pressure selling. On the premise that "it pays to be nice to people," the author shows how salesmanship can be improved by knowing the product, building customer confidence, handling complaints, learning to listen, and developing a low-pressure sales personality.

INTRODUCTION TO MOTIVATION RESEARCH. By J. George Frederick. Business Bourse, 80 West 40th Street, New York, N.Y. 1957. 230 pages. $4.75. Written in simple language for the general reader, this book explains the principles and applications of motivation research, evaluates the criticisms made of this technique, and proposes a code of ethics to guide practitioners in the future.

ART DIRECTING FOR VISUAL COMMUNICATION AND SELLING. The Art Directors Club of New York. Hastings House Publishers, 41 East 50th Street, New York 22, N.Y. 1957. 240 pages. $15.00. The joint effort of 70 specialists in the field, this manual affords a comprehensive view of the applications of the fine arts in a variety of fields from industrial design to television and motion pictures. Included are sections on the education and training of art directors, their code of ethics, the growth of their organizations, and a glossary of terms and reference works.

MARKETING MANAGEMENT: ***Analysis and Decision.*** By John A. Howard. Richard D. Irwin, Inc., Homewood, Ill. 1957. 429 pages. $7.80. Written from the management point of view, this text is designed to provide the basic

tools for decision-making at the executive level. Marketing operations are viewed in relation to the total economic environment and to recent developments in the behavorial sciences. A minimum knowledge of accounting and economics is assumed.

PRICING FOR PROFIT AND GROWTH. By Albert J. Bergfeld *et al.* McGraw-Hill Book Company, Inc., New York, 1957. 188 pages. $12.50. This volume, the fourth in the series of McGraw-Hill Consultant Reports on Current Business Problems, is addressed to a hypothetical company whose pricing problems are taken to be representative of those facing management in general. Beginning with an explanation of why the client's pricing policies need revision, the report goes on to discuss such problems as cost and market analysis, introducing and pricing new products, alternatives to changing prices, pricing for different customers, and distribution costing and discount schedules.

MAKING YOUR SALES PRESENTATION SELL MORE. By Edward J. Hegarty. McGraw-Hill Book Company, Inc., New York, 1957. 307 pages. $4.95. This practical handbook for salesmen is organized around four major problems: (1) what to say; (2) what to do; (3) what to ask the prospect to do; and (4) how to organize for effective selling.

ADVERTISING AT THE POINT OF PURCHASE. Edited and compiled by the Association of National Advertisers, Inc., and the Point-of-Purchase Advertising Institute. McGraw-Hill Book Company, Inc., 1957. 240 pages. $6.95. A reference guide to the use of point-of-purchase advertising based upon the actual experiences of some 150 national and regional advertisers representing 20 major product areas. It covers the general background and functions of this type of advertising as well as specific problems such as budget control, legal considerations, field research, installation, and evaluation.

ADVERTISING MEDIA: *Creative Planning in Media Selection*. By Lyndon O. Brown *et al.* The Ronald Press Company, New York, 1957. 395 pages. $7.50. Emphasizing the need for relating media selection to a company's over-all marketing policy, this text deals with the characteristics of various advertising media, the quantitative and qualitative measurement of media audiences, prices and the cost-per-thousand concept, the advertising budget, and the basic considerations that should guide the marketing executive in the choice of appropriate media.

A MODERN COURSE IN SALESMANSHIP. By James S. Knox and John Knox. Knox Business Book Company, Oak Park, Ill. 1957. 579 pages. $4.00. The successor to an earlier volume, *Salesmanship and Business Engineering*, this book is concerned with the role of the salesman in the modern business world, the steps in the sales process, and the human element in salesmanship. Included are questions and exercises after each chapter and a number of charts and graphs summarizing the points made in the text.

PACKAGING AND DISPLAY ENCYCLOPEDIA. George Newnes, Limited, Tower House, Southampton Street, Strand, W.C. 2, London, England. 736 pages. $16.75. The fourth edition of a reference guide to materials, methods, and machines in the packaging industry. Designed for users as well as manu-

facturers, it includes a glossary of terms, a buyers' guide, makers' schedules of supplies and services, and information on recent technical developments in this field.

EXTENDING THE SELLING SEASON: ***Portfolio 9.*** Printers' Ink Books, Pleasantville, N.Y., 1957. 62 pages. $10.00. Compiled from articles originally published in *Printers' Ink* and based on the experiences of leading companies in various lines of business, this manual offers the marketing executive a number of practical suggestions on how to eliminate seasonal slumps and create an all-year-round market.

PRESENTING AND JUSTIFYING YOUR ADVERTISING BUDGET: ***Portfolio 8.*** Printers' Ink Books, Pleasantville, N.Y., 1957. 78 pages. $10.00. Like its companion volume reviewed above, this book is one of the Printers' Ink Portfolios for Planning series comprising selections from recent issues of *Printers' Ink.* The materials are grouped around two central themes: (1) how to sell management on advertising, and (2) how to analyze and justify advertising budgets.

FINANCE

COST ACCOUNTING: ***Principles and Practice.*** By John J. W. Neuner. Richard D. Irwin, Inc., Homewood, Ill., 1957. 944 pages. $8.40. Featuring a number of changes in content and organization, this fifth edition covers the fundamentals of cost accounting, process accounting, the use of accounting data in management control, and special applications of accounting procedures in nonmanufacturing and uniform cost accounting systems.

CORPORATE FINANCE. By Elvin F. Donaldson. The Ronald Press Company, New York, 1957. 876 pages. $7.50. A comprehensive survey of financial policies and practices in the modern corporation. Designed primarily for college and business school students, the text combines the theoretical and practical aspects of the subject and includes in each chapter a number of cases to illustrate how basic principles are applied in problem situations.

STANDARD HANDBOOK OF BUSINESS TAX TECHNIQUES. J. K. Lasser Tax Institute. McGraw-Hill Book Company, Inc., New York, 1957. $15.00. A manual of practical advice for management on how to effect income tax savings in handling dividends, rent, royalties, compensation, advertising, research and development, purchase or sale of a business, insurance, and other business problems.

MODERN CORPORATION FINANCE. By William H. Husband, and James C. Dockeray. Richard D. Irwin, Inc., Homewood, Ill., 1957. 771 pages. $7.80. This fourth edition of an earlier text examines corporate financial practices in the light of recent changes and developments in this field. In addition to discussing internal operations, the authors point out how external influences such as government regulation and public policy affect corporate administration.

STANDARD COSTS: *How They Serve Modern Management.* By Clinton W. Bennett. Prentice-Hall, Inc., Englewood Cliffs, N.J., 1957. 515 pages. $10.65. This comprehensive account of standard cost procedures emphasizes the contributions of engineering and accounting to managerial decision making. The organization of the material parallels the procedures followed by a cost consultant in working through the problems of a client company, and the case method is used throughout to illustrate how cost theory is applied to specific problems in different types of business.

COMMERCIAL CREDIT AND COLLECTION PRACTICE. By Watrous H. Irons and Douglas H. Bellemore. The Ronald Press Company, New York, 1957. 784 pages. $6.75. This second edition represents a thorough revision of the original text in line with current practices and legal requirements. While the emphasis on the fundamentals of credit and collection is retained, more attention is given to the techniques of credit analysis, and new materials are introduced on a number of problems including consumer credit and the role of the government and the Federal Reserve System in the area of credit control and counter-cyclical policy.

PROBLEMS OF CAPITAL FORMATION: *Concepts, Measurement, and Controlling Factors. Studies in Income and Wealth, Volume Nineteen.* Conference on Research in Income and Wealth, National Bureau of Economic Research. Princeton University Press, Princeton, N. J., 1957. 612 pages. $7.50. The papers and discussions included in these proceedings of the Conference on Research in Income and Wealth held in October, 1953, are grouped around three major topics: (1) the statistics of capital formation and related conceptual problems; (2) the measurement of capital coefficients and productive capacity; and (3) factors controlling the flow of private capital formation.

FOREIGN OPERATIONS

MARKETING BY MANUFACTURERS: *Report of the International Conference held in Paris, May 2-4, 1956.* The Organisation for European Economic Co-operation, 2000 P Street, N.W., Washington 6, D.C. 1957. 123 pages. $1.25. A digest of the latest achievements in modern marketing techniques covering the role of marketing in industry, marketing research, sales policy, and training of marketing executives. In addition to the papers and discussions presented by marketing experts from 12 countries, the report includes the recommendations approved by the Conference.

THE SUPPLY OF CAPITAL FUNDS FOR INDUSTRIAL DEVELOPMENT IN EUROPE: *Resources, Structure, Methods.* The Organisation for European Economic Co-operation, 2000 P Street, N.W., Washington 6, D.C. 1957. 235 pages. $2.00. This study reports the general findings of a survey of capital markets in eight European countries, the United Kingdom, and the U.S.A. The focus is on the efficiency of existing institutions and methods for channeling savings into industrial development. Details of the mechanism of capital supply in the individual countries are published separately in three supplements.